

**REPORT ON PROCEEDINGS BEFORE**

**PORTFOLIO COMMITTEE NO. 4 – LEGAL AFFAIRS**

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

**CORRECTED**

**At Sydney on Monday 13 August 2018**

**The Committee met at 9:30**

**PRESENT**

The Hon. Robert Borsak (Chair)  
The Hon. David Clarke  
The Hon. Catherine Cusack  
The Hon. Trevor Khan  
The Hon. Shaoquett Moselmane  
Mr David Shoebridge  
The Hon. Lynda Voltz



**The CHAIR:** Welcome to the first hearing of Portfolio Committee No. 4 – Legal Affairs inquiry into the Fire and Emergency Services Levy. The inquiry is examining the policy, process and financial modelling underlying the provisions of the Fire and Emergency Services Levy Act 2017; the policy and financial implications of repealing this Act; and the alternative models for ensuring that fire and emergency services are fully funded in a fair and equitable manner. Before I commence, I acknowledge the Gadigal people, who are the traditional custodians of this land. I also pay respect to the elders past and present of the Eora nation and extend that respect to other Aboriginals present.

Today is the first of two hearings we plan to hold for this inquiry. We will hear today from New South Wales Government representatives, industry groups, Local Government NSW, NSW Revenue Professionals, NSW Rural Fire Service Association and Penrith City Council. I will make some brief comments about the procedures for today's hearing. Today's hearing is open to the public and is being broadcast live via the Parliament's website. A transcript of today's hearing will be placed on the Committee's website when it becomes available. In accordance with broadcasting guidelines, while members of the media may film or record Committee members and witnesses, people in the public gallery should not be the primary focus of any filming or photography. I also remind media representatives that they must take responsibility for what they publish about the Committee's proceedings.

It is important to remember that parliamentary privilege does not apply to what witnesses may say outside of their evidence at the hearing, so I urge witnesses to be careful about any comments they may make to the media or to others after completing their evidence, as such comments would not be protected by parliamentary privilege if another person decided to take an action for defamation. The guidelines for the broadcast of proceedings are available from the secretariat.

There may be some questions that a witness could only answer if they had more time or certain documents to hand. In these circumstances witnesses are advised that they can take a question on notice and provide an answer within 21 days. To aid the audibility of this hearing I remind committee members and witnesses to speak into the microphones. In addition, several seats have been reserved near loudspeakers for persons in the public gallery who may have hearing difficulties. Finally, I ask everyone to turn their mobile phones to silent for the duration of the hearing.

**NATALIE HORVAT**, Executive Director, Revenue and Intergovernmental Division, NSW Treasury, affirmed and examined

**The CHAIR:** I welcome our first witness. Do you wish to make a short opening statement?

**Ms HORVAT:** Yes, Mr Chairman.

**The CHAIR:** Please proceed.

**Ms HORVAT:** Thank you for the opportunity to appear before the inquiry. By way of introduction, my name is Natalie Horvat and I am currently the Executive Director of the Revenue and Intergovernmental Division at NSW Treasury. This is the division which has the carriage of the development of the State's revenue policies including the Fire and Emergency Services Levy, or the FESL, as I will refer to it. My division sits within the Treasury's Fiscal and Economic Group which reports to the Deputy Secretary, Dr Caralee McLiesh. Dr McLiesh had intended to appear before the inquiry but has been on medical leave and is unable to attend. For completeness, NSW Treasury did explore with the committee secretariat whether there was any possibility of deferring the hearing date for a short period to enable Dr McLiesh to appear but I understand this was not possible.

I commenced with NSW Treasury in October 2016, so while that timing postdates much of the substantive policy design work on the FESL it did see me within Treasury during the implementation phase. Reflecting this, I will certainly do my best to assist the inquiry with its questions today. There is, however, a reasonable prospect I may need to take some questions on notice. As requested by the inquiry secretariat, my opening statement will provide an overview of the FESL to give some context for the inquiry and I will touch on aspects of the NSW Treasury modelling.

The public record shows that the policy intent to reform funding for the fire and emergency services has been considered over an extended period. In fact this proposal as I understand it was first considered as far back as 2004. This followed a reference by Treasurer Egan in response to a recommendation from the royal commission into the collapse of HIH Insurance. As the Committee will be aware, the work undertaken by our fire and emergency services agencies is vital to the safety of the community—and to the economy as well, I may add. The importance of these agencies can be judged by the volume of services they provide.

In 2016-17 Fire and Rescue NSW responded to over 123,000 emergencies, the NSW Rural Fire Service responded to over 24,000 incidents and the NSW State Emergency Service responded to over 118,000 calls. However, while the services provided by these agencies are essential, the intention of the FESL was that the cost of funding these services is shared across the community fairly and the revenue raised to fund these services would be raised efficiently. The cost of the fire and emergency services agencies is fully funded from the New South Wales budget at around \$1.2 billion annually. To partially offset this cost, revenue contributions are obtained through a levy on insurers and local governments. Insurer contributions comprise 73.7 per cent and those from local government 11.7 per cent. The remainder is funded from the New South Wales budget.

The Government does not regulate how insurers pass on the cost of the levy to policyholders but insurers typically impose a different percentage mark-up for each insurance type, in line with the contribution of that policy to the insurer's levy liability. Contributions by individual local governments are calculated by each of the fire and emergency services according to different criteria, such as expenditure in each fire district, with land values for that district, or, in the case of the State Emergency Service, according to the population of each local government area.

With the majority of funding for the fire and emergency services being ultimately collected from insurers, this meant that only the property owners who were fully insured or partially insured contributed to the cost of these services. Therefore the policy objective of the FESL was to find a more equitable mechanism for funding the fire and emergency services of New South Wales. To address this policy objective the Government published a discussion paper in 2012 seeking community comment on possible reform options. The discussion paper canvassed the introduction of a property based levy. In general there was support to reform the funding of fire and emergency services, although the exact details of the reform were not specified at that time.

Following the discussion paper, further work was undertaken by NSW Treasury, including modelling based on data from two large insurers. Other findings of previous reviews included the Henry tax review in 2010 and of course we have other States' experiences in implementing the Fire and Emergency Services Levy to inform our work. In December 2015 a proposal to replace the insurance based levy with a land value based levy on all property owners was announced by the Government. With the announcement of the reform, Treasury established a project team to develop legislation in consultation with government agencies, engage with local government on

implementation issues, undertake more detailed modelling of the financial impacts of the reform and to develop a communication and information strategy to assist the smooth implementation of the FESL.

As part of the reform, the Emergency Services Levy Insurance Monitor was established to provide consumer protections during the transition in moving away from an insurance-based levy. The Emergency Services Levy Insurance Monitor Act commenced on 7 June 2016. The Act provided the Insurance Monitor with powers to obtain data from insurers and de-identify data on current insurance levies paid by policyholders was sought from insurers in order to inform the policy development and model the estimates of impacts across the community.

Modelling of taxation reform is undertaken to inform policy advice and the decision-makers. It serves as a useful indicator of likely impacts but, like all modelling, it will not be able to predict or reflect the individual circumstances of each family or business within the State; the FESL modelling was no different. The large sample of insurance data we had was eventually match with land value information for July 2016. This allowed Treasury to undertake modelling on the financial impact of a property-based levy and to assess different levy rate structures.

While working with the best dataset available to Treasury, as with most modelling there was some data limitations, in particular, while matching of insurance-based ESL payments to insured property addresses for the residential sector was possible for around 65 per cent of 2.8 million properties in New South Wales, non-residential properties proved more problematic with matching only possible for around 26 per cent of 460,000 non-residential properties. Nonetheless this process permitted a number of conclusions to be drawn, including that broadening of the revenue base would see savings for average fully insured property owners both in the residential and non-residential sectors, and there was a wide range of net outcomes for individual properties arising from the shift from an insurance-based to a land-based levy.

Treasury's work on determining the potential levy rates was also guided by the principles that the reforms would be revenue-neutral and the share of the levy payments by residential, non-residential and farming sectors would remain unchanged. Based on these conclusions, and in consultation with local government and peak bodies, the fire and emergency services levy was developed with the intent to redistribute the levy burden between members of the community while remaining budget neutral. Shortly after the passage of the Fire and Emergency Services Act in March 2017, the Government published the proposed levy rates.

As part of the reform process there was an advertising and information campaign to inform the community of the changes, including the timing and their purpose. In addition, as part of informing the community about these changes and providing transparency on the impacts, a calculator was published on the FESL website to allow individual households and businesses to determine their expected levy liabilities for 2017-18. As a result of the feedback that came through following the release of the calculator, the Government considered that the policy objectives of the reform were not being met. The Government was receiving feedback from the community that the expected outcomes for some sectors, particularly the commercial and industrial sections, was greater than intended or expected.

On 30 May 2017 the Government announced that it would defer the FESL and reinstate the pre-existing emergency services levy on insurance premiums. With the reinstatement of the emergency services levy, insurers have reintroduced ESL into their premiums. During 2017-18 and 2018-19 insurers will have some flexibility as to the timing of their ESL recovery for customers. The powers of the Emergency Services Levy Insurance Monitor, originally created to oversee the implementation of the FESL, have been extended until July 2020 to oversee the reinstatement of the ESL and to ensure that New South Wales customers pay no more than the permitted amounts. This will mean the consumer protection role of the Insurance Monitor continues over the period. In addition, the Insurance Monitor will be required to ensure that ESL collections from insurance policyholders during this period have not exceeded their payment obligations to the Government. Thank you for the opportunity to deliver an opening statement. I am happy to endeavour to answer any questions the Committee may have.

**Mr DAVID SHOEBRIDGE:** Thank you for coming. The Committee members understand that it is a little unfair that you are in the hot seat; none of us blames you for the policy. As I understand your opening, the Government is going to impose this big new tax 12 months after the next election, is that correct?

**Ms HORVAT:** That would be a matter for the Government.

**Mr DAVID SHOEBRIDGE:** You said in your opening that it will be rolled out in 2020, is that correct?

**Ms HORVAT:** No. Sorry, in my opening statement I was referring to the powers of the independent Insurance Monitor being extended until mid 2020. That is to oversight consumer protection during the re-implementation of the emergency services levy.

**Mr DAVID SHOEBRIDGE:** Is it the Government's position that it will be re-implemented sometime before 2020?

**Ms HORVAT:** The emergency services levy has been re-implemented.

**Mr DAVID SHOEBRIDGE:** Are there any plans in government for any ongoing work to implement the FESL—although I think the Chair more accurately described it as a fizzle—at any time in the future?

**Ms HORVAT:** Mr Shoebridge, I think you would be aware that the Treasurer is on record as saying that the FESL in its current form is dead, buried and cremated.

**Mr DAVID SHOEBRIDGE:** I am asking you about working in a different form and if it is going to be resurrected like a big zombie tax after the next State election?

**Ms HORVAT:** The role of my division within Treasury is to provide advice to the Government on all forms of revenue policy in New South Wales, including insurance taxes. As part of that process we have ongoing discussions with the Treasurer and the Treasurer's office about insurance taxes and other taxes. That is part of the normal role of my division.

**Mr DAVID SHOEBRIDGE:** So can we safely take it that there is work afoot for the Treasurer and this Government to resurrect this zombie tax after the next State election but in a slightly different form, is that correct?

**The Hon. CATHERINE CUSACK:** Mr Chairman, can I make the point that we have a public servant here and that ironic questioning like "zombie tax" is not appropriate. Secondly, as the member knows, policy is very much the preserve of government rather than putting pressure on the witness.

**The CHAIR:** Are you taking a point of order?

**The Hon. CATHERINE CUSACK:** Yes, I am.

**Mr DAVID SHOEBRIDGE:** None of that relates to any standing order or rules. There is no point of order.

**Mr DAVID SHOEBRIDGE:** Ms Horvat, could you answer the question please?

**Ms HORVAT:** I am sorry, could you repeat the question?

**The Hon. TREVOR KHAN:** Point of order: A point of order has been taken by the Hon. Catherine Cusack.

**The CHAIR:** I ruled there is no point of order.

**Mr DAVID SHOEBRIDGE:** Ms Horvat, can the Committee take it that there are plans and work going on at the moment with the Treasurer and his department to resurrect a form of the FESL after the State election?

**Ms HORVAT:** Treasury continues to explore options to improve the efficiency and fairness of our taxation system, including insurance taxes through our ongoing discussions with and advice to the Treasurer and the office. I understand the Government continues to engage with stakeholders to identify a better way forward.

**The Hon. LYNDA VOLTZ:** Maybe we could ask the question in a different way. Have you been asked to look at any alternative propositions?

**Ms HORVAT:** Treasury's advice to the Treasurer forms part of the New South Wales Government's ongoing deliberative processes. As with any policy development there is an initiative process of advice and discussion, with any key decisions being taken to Cabinet. Disclosure of the substance of any advice would prejudice this deliberative process.

**The Hon. SHAOQUETT MOSELMANE:** You said that the Minister has said that it is dead, buried and cremated.

**Mr DAVID SHOEBRIDGE:** And about to be resurrected I think is the answer.

**The Hon. SHAOQUETT MOSELMANE:** Do you know if any other form of the FESL will be resurrected? You work in Treasury, what is proposed?

**Ms HORVAT:** That would be a matter for the Government and the Government's Cabinet deliberative processes.

**The Hon. SHAOQUETT MOSELMANE:** But are they talking to you?

**Ms HORVAT:** Treasury provides options on all types of alternatives to improve the efficiency and fairness of our taxation system.

**The Hon. LYNDIA VOLTZ:** So you provide advice in relation to the FESL. Have you provided alternative advice on different models for a fire and emergency levy?

**Ms HORVAT:** Treasury's advice to the Treasurer forms part of the New South Wales Government's ongoing deliberative process. That advice would be presented to Cabinet and as such would be a matter of Cabinet- in-confidence.

**The Hon. LYNDIA VOLTZ:** That is all well and good if it has gone to Cabinet, but I am asking if you have done any alternative modelling in relation to a fire and emergency services levy since the last piece of legislation went to the Parliament?

**Ms HORVAT:** As I say, the Treasurer's advice forms part of the ongoing deliberative process.

**The Hon. LYNDIA VOLTZ:** I am not asking about the Treasurer's advice, I am asking you if your department has done any alternative modelling on a fire and emergency service levy since the passing of the last piece of legislation? I am not asking about advice.

**Ms HORVAT:** That would form part of our advice.

**Mr DAVID SHOEBRIDGE:** That would be a yes.

**The Hon. LYNDIA VOLTZ:** Let us get back to the last one. Exactly what modelling did you use initially to give you confidence that the legislation that was introduced in the Parliament was workable across industry, business and residential?

**Ms HORVAT:** This policy reform, like most tax policy reforms that I have worked on over my career relied on modelling to understand the impacts of the reform across the community. I am not aware of any economic model that can predict the outcomes for the individual circumstances of each and every property in New South Wales, particularly given there are over three million properties in New South Wales.

**The Hon. LYNDIA VOLTZ:** That is good. But I am asking you exactly what modelling you did?

**Ms HORVAT:** Mr Chair, I would like to take Ms Voltz through the steps of our modelling.

**The CHAIR:** Yes.

**Ms HORVAT:** As such, our modelling, like all modelling, was a pedagogical device. It was part of the suite of information that we pulled together to inform our policy and the advice that we used to inform our decision makers in their choice. Our modelling used a large sample of insurance data. The insurance data was matched with land value for 59 per cent of all properties. The sample permitted robust conclusions to be drawn about the impact of the FESL on individual residential properties and less robust conclusions about the impact on non-residential properties. The modelling was subject to a number of known data risks. As I mentioned in my opening statement non-residential matching was more problematic, only matching around 26 per cent of 460,000 non-residential properties.

**The Hon. LYNDIA VOLTZ:** Who identified that the modelling was flawed?

**Ms HORVAT:** As I say, the modelling was subject to a number of known data risks.

**The Hon. LYNDIA VOLTZ:** You knew it was flawed from the start?

**Ms HORVAT:** The modelling had data limitations. Yes, we were aware of those data limitations.

**The Hon. LYNDIA VOLTZ:** You were aware from the beginning it was flawed?

**Ms HORVAT:** The data limitations were known. That was the best data set that was available and continues to be the best data set to be available.

**The Hon. LYNDIA VOLTZ:** When did you brief the Treasurer about that, that it was flawed?

**Ms HORVAT:** Advice would have been given to the Treasurer through the Cabinet process.

**The Hon. LYNDIA VOLTZ:** When did you brief the Treasurer that right from the start the data was flawed?

**Ms HORVAT:** To address the data limitations we examined the effects of properties through a series of case studies that would have been included in our advice to the Treasurer.

**Mr DAVID SHOEBRIDGE:** The question is not about case studies, the question is about the dataset that you said you knew had flaws and limitations.

**Ms HORVAT:** I do not accept "flaws", I do accept "limitations".

**Mr DAVID SHOEBRIDGE:** Describe it as you will. Can you tell us what the limitations were and can you tell us when you told the Government about those limitations? They are pretty simple questions.

**Ms HORVAT:** As I say, the limitations were that matching non-residential properties was far more problematic for a range of reasons. Some of those were the differences between insured property addresses and the addresses of the policyholders are not necessarily the same thing. Insurers do not always hold the address of an individual insured property, instead they may hold a single premium for a large portfolio of properties. The presence of multiple addresses within a single property, for example an office block, made it quite difficult to match non-residential properties with the insurance data. We would have briefed the Treasurer and Cabinet throughout the policy development process.

**Mr DAVID SHOEBRIDGE:** For the non-residential sector it was largely a guess because the data was so wrong?

**Ms HORVAT:** Not guessed, informed by data.

**The Hon. SHAOQUETT MOSELMANE:** You say in your submission on page 7 that the challenge that remains before the Government is to design an alternative model that does in fact spread the cost funding FESL more equitably. Can you explain that and tell us what modelling would make it an equitable system?

**The Hon. LYNDIA VOLTZ:** What model are you looking at?

**Mr DAVID SHOEBRIDGE:** How are you looking to make it more equitable?

**The Hon. LYNDIA VOLTZ:** Yes, what model are you using?

**Ms HORVAT:** I think the fairness relates more to the objectives of the fire and emergency services levy [FESL], which was to make the levy more fair. There are three key components in making the levy more fair. One is that property owners who choose to be uninsured contribute to the levy; property owners who are underinsured contribute fully to the levy; and property owners who choose a high policy excess or policy deductible also contribute fairly to the levy. The purpose and objective of the fire and emergency services levy was to improve fairness across the community. At the moment the emergency services levy is imposed on the insurance premiums of those who are insured yet we all know that across New South Wales the benefits of our fire and emergency services are shared and the purpose of the FESL was to try to capture a more evenly distributed contribution to the fire and emergency services of New South Wales.

**The Hon. SHAOQUETT MOSELMANE:** Based on that argument, Lynda Voltz' property is insured and I do not have a policy. If her home is burnt under her policy it is covered, my house is not. If my house is burnt, I do not have any coverage or reimbursement for loss of property.

**The Hon. CATHERINE CUSACK:** The fire truck comes.

**The Hon. SHAOQUETT MOSELMANE:** Why should I pay equitably between myself and her where she will be covered? Why would I be making the same payments?

**Ms HORVAT:** That was the purpose—

**The Hon. SHAOQUETT MOSELMANE:** The point is that there is a policy that would attract a fire levy and in the end a coverage for a property, whereas my property will not be covered.

**The Hon. LYNDIA VOLTZ:** Perhaps we can put the question a different way. The equity you are talking about: I cover my house with insurance; my next-door neighbour, Doug, is a pensioner and does not have insurance because he is a pensioner and could not afford it. The problems of equity do not take that into consideration. You agreed with the premise in your opening statement that there is an inequity across the State because you do not take into account the ability of households to cover the FESL, do you?

**Ms HORVAT:** The FESL had a number of aspects and the fairness of the FESL was that all members of the community in New South Wales benefit from our fire and emergency services. As I say, they provide a fundamental service across New South Wales. Doug also benefits from our fire and emergency services, particularly if when your house was burning down his house was also affected. The nature of the fairness was to share the cost across the community and provide a stable source of funding to our fire and emergency services. And, further to that, there was a hardship scheme in place and pensioner discounts for the FESL.

**Mr DAVID SHOEBRIDGE:** The Government's plan was to make pensioners pay? Was that the plan?

**Ms HORVAT:** The plan was to make any property owner across New South Wales contribute to the stable and efficient funding of fire and emergency services.



**Mr DAVID SHOEBRIDGE:** This is not your policy and you have been put in the hot seat to answer these questions; I appreciate the situation you are in. The submission put forward by the Government says an insurance-based levy results in inequity for fully insured property owners. The first category of inequity is property owners who choose to be uninsured. What analysis or data did you look at to see who is choosing to be uninsured as opposed to people who just cannot afford insurance?

**Ms HORVAT:** In our submission to the Committee, you would be aware there are a number of charts showing the proportion of home owners without building insurance and proportion of home owners without contents insurance, pages 6 and 7 of our submission. New South Wales has a higher proportion of uninsured and underinsured property owners than other States and Territories.

**Mr DAVID SHOEBRIDGE:** New South Wales has a 1 per cent higher level of property owners without building insurance than does Victoria. Are you saying this entire scheme was to close that 1 per cent gap between New South Wales and Victoria?

**Ms HORVAT:** In economics we often look at the efficiency of our tax system. The whole purpose of my team is to understand how the tax system affects the economy and how the tax system affects behaviour. What we know is that a levy on insurance premiums increases the cost of insurance premiums. That increased cost means less people take out insurance.

**Mr DAVID SHOEBRIDGE:** Ms Horvat, do you know that in Sydney the average mortgage payment of people struggling to get by in this city is well north of \$3,000 a month? Are you saying that those people who are paying a mortgage well north of \$3,000 a month and do not have the money to pay insurance are choosing not to have insurance? Was that the basis upon which you started this entire scheme off?

**Ms HORVAT:** Mr Shoebridge, I think I have answered your question. I said that what happens with a levy on insurance is insurance becomes more expensive. When insurance becomes more expensive, you are right, people cannot afford it.

**The CHAIR:** Ms Horvat, what was the dollar shortfall you were trying to recover in relation to funding 100 per cent of the fire and emergency services that that Government provides? I think at the top of page 2 you say that there is roughly 15 per cent that the Government recovers from these levies—the funding target. Then by doing an adjustment of stamp duty, you lift that to 92.7 per cent. What is the dollar amount in extra tax that you were seeking to recover to cover the services? Isn't that the nub of the whole thing? The Government is seeking a mechanism that will automatically adjust itself and make a growth tax available in a State where uninsured land values are always going up. I want the dollar amount.

**Ms HORVAT:** I would have to take the dollar amount on notice, to be honest, chairman. The FESL was designed to fund 73.7 per cent of the costs of the fire and emergency services. The costs of the fire and emergency services differ each year, so I would have to take—

**The Hon. LYNDA VOLTZ:** What is the levy covering at the moment?

**Mr DAVID SHOEBRIDGE:** That is 73.7 per cent.

**The Hon. LYNDA VOLTZ:** No, she said that is what the FESL is meant to—

**Ms HORVAT:** Sorry, that is what the levy is covering at the moment, as well.

**The Hon. LYNDA VOLTZ:** So it was intended to be 73.7 per cent into the future?

**Ms HORVAT:** It was a revenue neutral—

**The CHAIR:** No, it is intended to cover 100 per cent in the future.

**The Hon. LYNDA VOLTZ:** That is what I am getting to.

**Ms HORVAT:** No, I am sorry, Mr Chair. It was not 100 per cent in the future. It was designed so the local government's contribution of 11.7 per cent would still stand under the FESL.

**The Hon. LYNDA VOLTZ:** That would still leave 90 per cent.

**Ms HORVAT:** The FESL was replacing 73.7 per cent—

**Mr DAVID SHOEBRIDGE:** A bit under 15 per cent comes from State Government. A bit over 11 per cent comes from local government.

**Ms HORVAT:** Correct.

**Mr DAVID SHOEBRIDGE:** The rest is the levy.

**Ms HORVAT:** Correct.

**Mr DAVID SHOEBRIDGE:** You were keeping those proportions the same?

**Ms HORVAT:** Correct.

**The Hon. CATHERINE CUSACK:** The levy is imposed on the building insurance but also on the home contents insurance.

**Ms HORVAT:** That is right.

**The Hon. CATHERINE CUSACK:** Over 35 per cent of home owners do not have contents insurance.

**Ms HORVAT:** That is right.

**The Hon. CATHERINE CUSACK:** Is it fair to say that one of the policy objectives was to make insurance cheaper so that more people would take it up?

**Ms HORVAT:** Absolutely.

**Mr DAVID SHOEBRIDGE:** That helps insurance companies enormously, doesn't it, by a massive uptake in insurance?

**The Hon. CATHERINE CUSACK:** Can I just continue with my line of questioning. There was a policy goal that people's premiums would fall. Is that correct?

**Ms HORVAT:** I am sorry, could you repeat that?

**The Hon. CATHERINE CUSACK:** One of the policy objectives was that by spreading it over a large group premiums would fall and there would be a saving. The shortcoming in the policy was that that did not happen consistently across policyholders, did it?

**Ms HORVAT:** Going back a step, on average the FESL, for the average fully insured homeowner, would actually save them \$47 compared to the Emergency Services Levy [ESL]. It would actually make, on average, the fully insured residential property of New South Wales better off. Similar results were also found, for example, for the farm sector. The farm sector, on average, would be better off.

**The Hon. CATHERINE CUSACK:** Can I ask how the insurance companies calculate the levy that they are imposing on people's premium? Is it based on the amount you are paying or is it a flat levy?

**Ms HORVAT:** The insurance levy is allocated among insurers based on their market shares. We calculate the market shares of insurers and then we allocate the levy across those insurers according to that market levy. How they impose it on insurance premiums is a matter for the insurance companies.

**Mr DAVID SHOEBRIDGE:** No-one knows.

**The Hon. CATHERINE CUSACK:** I want to understand this without interruption. Was there any work done on how they are calculating the levy on individual policy holders?

**Ms HORVAT:** There was extensive work done in understanding how the insurance market operates. As part of that, I guess, the independent insurance monitor also did extensive work in understanding how—

**The Hon. CATHERINE CUSACK:** I really need to understand this. I live in a low crime area so our premium is probably less than someone in a higher crime area. Would the levy on me be higher or lower? Would you intuitively know the answer to that?

**Ms HORVAT:** The Emergency Services Levy is allocated on insurance premiums by insurers. I would suggest that that is a question best answered by the Insurance Council of Australia.

**The Hon. CATHERINE CUSACK:** If you do not understand how the levy was being imposed in real time in real life, how did you calculate what the impact on policyholders would be?

**Ms HORVAT:** As I said, the FESL was based on the property land values. So we knew how the FESL would be implemented and what the FESL impact would be. The known limitation of the data was that we could not match insurance premiums, which included the ESL to each individual property.

**The Hon. CATHERINE CUSACK:** Can I put it to you that there were actually two aspects to the methodology. The first was those principles that you talked about—a more equitable, bigger pool. There was a second aspect to it, which was how the Government then calculates it on individual properties. There was not the data on the current system in order to work out those impacts. Is that a fair statement?

**Ms HORVAT:** There was a very large dataset, and we matched over two million properties. But your statement is correct, particularly for the non-residential sector. There was much more limited data in trying to match the property values and insurance premiums of non-residential.

**The Hon. CATHERINE CUSACK:** Can I just go to that commercial sector? I have a small business, a fruit and vegetable shop. Is it in the same basket as the banks in Martin Place?

**Ms HORVAT:** It would have been part of the commercial sector, yes, bearing in mind that there was a fixed component to the FESL and then an ad valorem component. Presumably the land of the banks is much more expensive than the land of the fruit shop.

**Mr DAVID SHOEBRIDGE:** But they pay the same base rate.

**Ms HORVAT:** They do pay the same base rate.

**The Hon. CATHERINE CUSACK:** The banks' alarms are going off all the time. They are always getting the fire brigade to come to them. Is there a user-pays component?

**Ms HORVAT:** I would ask you to direct that question to the fire and emergency services. That is my understanding, but they would be best placed to answer that.

**The Hon. CATHERINE CUSACK:** You have given us the three components for revenue. I had understood that in addition to that there are user charges.

**Ms HORVAT:** That is my understanding.

**The Hon. CATHERINE CUSACK:** You are not aware of any user chargers?

**Ms HORVAT:** That is my understanding, there are user charges, but I think that question is better for—

**The Hon. CATHERINE CUSACK:** Do you know what component of the revenue is user charges?

**Ms HORVAT:** No. I could take that on notice.

**The Hon. CATHERINE CUSACK:** The methodology for how this new levy was being imposed across properties was really a greenfield policy, wasn't it? It did not actually relate to the previous system because the insurance companies were doing their own calculation.

**Mr DAVID SHOEBRIDGE:** And you could not link the premium and the levy to individual properties. So there were two problems.

**The Hon. CATHERINE CUSACK:** I am not criticising—

**Ms HORVAT:** As I said, we matched over two million properties in New South Wales. So I think we could draw quite robust conclusions for the residential sector. There were 460,000 properties where our conclusions or our matching was less robust.

**Mr DAVID SHOEBRIDGE:** One quarter.

**The Hon. CATHERINE CUSACK:** I am not referring to the amount at the moment, I am referring to the methodology. A decision has been taken in principle that the funding will be equitable. Straightaway an insurance company calculates on risk; we have done a calculation on equity. Do you agree that is a different approach to how you calculate—

**Ms HORVAT:** Our calculation was based on land values.

**The Hon. CATHERINE CUSACK:** Based on land values?

**Ms HORVAT:** That is right.

**The Hon. CATHERINE CUSACK:** Once a decision was made that the tax would be more equitable, the step I am trying to understand is how equity was calculated based on property value. That is where this seems to have come undone. Somebody has decided that the value of your property is going to be the measure of equity as to how much tax you should pay. That is not how insurance companies calculate the levy at all, as you know. I am not talking about the amount or the dollars, I am talking about the decision that was made that, in principle, property values is the best way to assess equity.

**Ms HORVAT:** The objective of the FESL was to spread the cost of the fire and emergency services across the community, not just on insurance policyholders. From the perspective of efficiently raising the funding of the fire and emergency services, land properties are an efficient and fair way of allocating the costs of fire and

emergency services. Landholders in New South Wales benefit from the services and capabilities of a fire and emergency services.

**The Hon. CATHERINE CUSACK:** To me, saying that land is a fair way of collecting tax is a policy statement, that is a non-factual statement.

**Mr DAVID SHOEBRIDGE:** I think Ms Horvat said an efficient way.

**Ms HORVAT:** Efficient, definitely.

**Mr DAVID SHOEBRIDGE:** Fairness or equity to one side, you are looking at efficiency and this is efficient, or are you also saying, as Ms Cusack said, it is fair?

**Ms HORVAT:** I am saying fair because the policy objective of the FESL was to spread the cost across New South Wales communities rather than just imposing it on insurance policyholders. That was the less fair component—

**The Hon. CATHERINE CUSACK:** I understand the fairness there. What I do not understand is the fairness in basing the amount you pay on the value of your property. To me, that is a policy decision. Somebody has decided that that is fair, and that is probably a debatable proposition.

**The Hon. LYNDA VOLTZ:** How would it be fair to the example of Doug? How would be it be fair to the pensioner who lives next to me within the 15 kilometre circle of Sydney where unimproved land values are going to be very high?

**The Hon. CATHERINE CUSACK:** Somebody has decided that is the way to do it and realised there are going to be perversities that will have offsets, which have been explained to us. I am trying to understand where that work and those decisions are made.

**Ms HORVAT:** Decisions are made by the Government.

**Mr DAVID SHOEBRIDGE:** Ms Horvat, I take you to page 6 of the submission. You see the graph that is titled "Proportion of Home owners without Building insurance"?

**Ms HORVAT:** Yes.

**Mr DAVID SHOEBRIDGE:** New South Wales has fallen from 6½ per cent about 20 years ago to 5 per cent in 2009-10. Do you see that?

**Ms HORVAT:** Yes.

**Mr DAVID SHOEBRIDGE:** Was it the Government's plan to get that 5 per cent of home owners to pay more?

**The Hon. TREVOR KHAN:** To be accurate, it had fallen by 2003-04.

**Mr DAVID SHOEBRIDGE:** Was it the Government's plan to get that 5 per cent of home owners to pay more?

**Ms HORVAT:** As I have said earlier, the Government's plan was to make insurance cheaper, so the 5 per cent could choose or afford to take up insurance.

**Mr DAVID SHOEBRIDGE:** Ms Horvat, please do not try to avoid the question.

**Ms HORVAT:** I am not trying to avoid the question.

**Mr DAVID SHOEBRIDGE:** Was it the Government's plan to get that 5 per cent of home owners to pay more money towards the emergency services? Yes or no?

**Ms HORVAT:** The nature of the Fire and Emergency Services Levy was to spread the cost across the community rather than on insurance premiums.

**The CHAIR:** I think the answer is yes.

**Mr DAVID SHOEBRIDGE:** Did the Government do any analysis and, if so, what analysis of the capacity of that 5 per cent of home owners to pay additional moneys? Did you look at those people? Did you understand the stresses they were under? Did you determine their capacity to pay?

**Ms HORVAT:** We were aware that there were some instances where capacity to pay was limited and the Government clearly outlined a hardship scheme to take those instances into account.

**Mr DAVID SHOEBRIDGE:** How many hardships instances were you expecting and was that hardship going to be 100 per cent compensated?

**Ms HORVAT:** I would have to take that question on notice.

**Mr DAVID SHOEBRIDGE:** Please do.

**Ms HORVAT:** I cannot recall the answer.

**Mr DAVID SHOEBRIDGE:** Do you understand why people in the community were screaming about a levy and when they are struggling to pay the better part of \$4,000 on a mortgage they cannot afford insurance, and then the Government says it will whack them with another \$230 levy because they cannot afford insurance? Do you understand how angry that made people in the community?

**Ms HORVAT:** Mr Shoebridge, my answer to that would be that the fully insured property was going to be \$47 better off.

**Mr DAVID SHOEBRIDGE:** The average fully insured property, but the 5 per cent of people who cannot afford insurance and are struggling to pay the mortgage and put food on the table, the Government's plan was to whack them with an extra \$230. Do you understand why they were angry about it?

**Ms HORVAT:** If they were property owners, they were asked to contribute to the FESL. If that 5 per cent did not own property then they would not contribute to the FESL.

**Mr DAVID SHOEBRIDGE:** By definition they own property because the chart is headed "Home owners without Building insurance". By definition they had property and the Government's plan was to whack the people who could not afford insurance. Squeeze the lemon until the pips squeak—that was the Government's plan, was it not?

**Ms HORVAT:** I do not accept your premise that everyone who does not have insurance cannot afford insurance. I can speak to a case study. I have elderly in-laws who had not realised that their insurance had lapsed. Fortunately, when we started to do their paperwork, we got them back into the insurance system.

**Mr DAVID SHOEBRIDGE:** You do not accept my premise?

**Ms HORVAT:** No.

**Mr DAVID SHOEBRIDGE:** Tell me what modelling and what data Treasury used and what analysis Treasury did on that 5 per cent of people?

**The Hon. TREVOR KHAN:** She said she would take that on notice.

**Ms HORVAT:** Yes, I said I would take it on notice.

**Mr DAVID SHOEBRIDGE:** No, you did not. You said you would take on notice the difference in pay.

**Ms HORVAT:** I am happy to take it on notice.

**Mr DAVID SHOEBRIDGE:** Given these were the people who were going to cop it in the neck, can you tell us from any of your available material what proportion of those people could not afford it? Surely before a government that cared about equity did that it would want to know what proportion of people could not afford it. What proportion could not afford it?

**Ms HORVAT:** Mr Shoebridge, I do not accept the premise of your question. The value of insurance is probably most valuable for those who can least afford it. They are the people who are least able to adjust to tragedy, to floods and fires, et cetera, so making insurance cheaper for them would be a more fair and more equitable outcome.

**Mr DAVID SHOEBRIDGE:** You wanted them to pay the levy and an insurance premium in the same year? You seriously think they were going to afford to pay your levy plus an additional insurance premium? Those people were already struggling. That is a nonsense argument, is it not, Ms Horvat?

**The Hon. TREVOR KHAN:** You are directing it to the wrong person.

**Mr DAVID SHOEBRIDGE:** You are suggesting they will pay both the levy and an insurance premium as a result of your policy change when we know they could not afford to pay an insurance premium in the first place. That is nonsense.

**Ms HORVAT:** Mr Shoebridge, I said to you, for example, in the case of my in-laws, it was not through lack of affordability, it was lack of knowledge.

**Mr DAVID SHOEBRIDGE:** Nobody would design a policy around your in-laws.

**Ms HORVAT:** There is a case study.

**The Hon. LYNDA VOLTZ:** Did you identify how many in that 5 per cent were pensioners?

**Ms HORVAT:** I am sure we would have. I would have to take it on notice.

**The Hon. LYNDA VOLTZ:** You said at the start that the data was incomplete.

**Ms HORVAT:** It was much more complete for residential and I presume pensioners were talking about the residence of pensioners.

**The Hon. LYNDA VOLTZ:** When you looked at residential and how much they were paying on the Emergency Services Levy, did you look at it as a proportion against what commercial was paying and, given insurance companies decided how it was levied, whether it was equitable based on property values and insurance currently within the system?

**Ms HORVAT:** The FESL was designed to make sure that no one sector of the community paid more than it did under the existing ESL.

**Mr DAVID SHOEBRIDGE:** Except for poor people.

**The Hon. LYNDA VOLTZ:** I am not saying that. When the assessment was done on the existing scheme—you say there is a \$47 a year saving—did you look at whether insurance companies were loading up residential or loading up commercial properties with the levy?

**Ms HORVAT:** Sorry, are you talking under the Emergency Services Levy?

**The Hon. LYNDA VOLTZ:** That is right.

**Ms HORVAT:** As I have said, the insurance monitor would look at that more closely when the ESL was being re-implemented. We looked at the ESL as to what was being charged prior to the FESL. I think I mentioned that insurance companies can do that themselves. However, the experience is that most insurers allocate that according to their share of insurance premiums.

**The Hon. LYNDA VOLTZ:** How were the insurance companies allocating that within their share of insurance premiums? Was it being allocated equitably across all different sectors: industrial, commercial, residential?

**Ms HORVAT:** I think the Insurance Council is appearing later today. I would encourage you to ask them that question.

**The Hon. LYNDA VOLTZ:** But did you include that in your modelling? Was that a part of what you looked at when you were looking at your modelling—how much each sector was paying in ESL?

**Ms HORVAT:** Yes.

**The Hon. LYNDA VOLTZ:** What were the findings of that?

**Ms HORVAT:** As I said, our modelling was designed to make sure that the FESL raise no more or no less for each sector, whether that be commercial, residential, public benefit or farmland.

**The Hon. LYNDA VOLTZ:** But how did you ascertain that, given that you did not know how the insurance companies were distributing the levy currently within their portfolios?

**Ms HORVAT:** The insurance data we had was insurance premiums per property—de-identified but gave us the property. We also had the land value and the property type. The local governments had classified their land types. So we knew what land was commercial, we knew what land was farm and we knew what land was residential.

**The Hon. LYNDA VOLTZ:** Did you also have how much they were currently paying on their ESL?

**Ms HORVAT:** Yes.

**The Hon. LYNDA VOLTZ:** Could you provide that data to the Committee?

**Ms HORVAT:** Can I provide that data? That is three million data points.

**The Hon. LYNDA VOLTZ:** I am sure that you have got a summary of it somewhere.

**Ms HORVAT:** I can take that on notice.

**The Hon. SHAOQUETT MOSELMANE:** Can I ask a question with regard to FESL? You make the point that it makes the fully insured better off. Is that correct?

**Ms HORVAT:** Yes.

**The Hon. SHAOQUETT MOSELMANE:** How does FESL make the uninsured pensioner better off?

**Ms HORVAT:** That was one of the known changes to the distribution of the funding for Fire and Emergency Services. Properties that were uninsured would now be paying a FESL.

**The Hon. SHAOQUETT MOSELMANE:** But how do I benefit? I am a pensioner. How does this new policy of FESL make the pensioner—

**Ms HORVAT:** If you were a pensioner and fully insured you would benefit. If you are a pensioner—

**The Hon. SHAOQUETT MOSELMANE:** No, I am an uninsured pensioner.

**Ms HORVAT:** I do not think the Government suggested that you would benefit, other than participating in providing funding for the Fire and Emergency Services.

**Mr DAVID SHOEBRIDGE:** You have a warm glow when you pay more.

**The Hon. SHAOQUETT MOSELMANE:** So you are saying that the pensioners would effectively be supporting the insurance companies.

**Ms HORVAT:** No, supporting Fire and Emergency Services, not insurance companies.

**The Hon. TREVOR KHAN:** Ms Horvat, can I take you through this? The prospect of levy is not something that has simply been created out of thin air, has it? It has been the subject of a number of commissions and inquiries.

**Ms HORVAT:** That is correct, since 2004.

**The Hon. TREVOR KHAN:** In fact, I think since 2003, the HIH commission.

**Ms HORVAT:** Okay, sorry, I stand corrected.

**The Hon. TREVOR KHAN:** I am actually looking at your material. Do you know whether Counsel Assisting made a recommendation to Justice Owen that there should be a change to the emergency levy that was then in place? If you cannot answer me, can you find out for me?

**Ms HORVAT:** I can find out for you. I cannot answer the exact words of the recommendation.

**The Hon. TREVOR KHAN:** Is it the case that in 2008 the Independent Pricing and Regulatory Tribunal [IPART] Review at that time also recommended that there be a reform of the ESL?

**Ms HORVAT:** That is correct.

**The Hon. TREVOR KHAN:** Did they assert that the current scheme discouraged households and businesses from acquiring an appropriate level of insurance cover?

**Ms HORVAT:** That is correct.

**The Hon. TREVOR KHAN:** When in 2009 the Victorian royal commission looked at this issue, did it recommend to the Victorian Government that it replace its emergency services levy with a property-based levy?

**Ms HORVAT:** That is correct.

**The Hon. TREVOR KHAN:** Then when the Henry review looked at the issue of taxes on insurance, did it conclude that low-income earners are more likely than high-income earners to abandon insurance in response to higher premiums?

**Ms HORVAT:** That is correct.

**The Hon. TREVOR KHAN:** Did the Henry review also conclude that the result is that low-insurance earners bear more risk, although they are less well placed to do so than people with higher income.

**Ms HORVAT:** That is correct, and that relates to my previous responses. This is a sector of the community we should most worry about in terms of being able to access insurance.

**Mr DAVID SHOEBRIDGE:** Ms Horvat, on page 12 of your submission, you say the Treasury estimated that the average fully insured residential property owner would see a saving of \$47 per annum. Do you know what the median—which is often a far more useful figure—reduction is?

**Ms HORVAT:** I do not have that in front of me.

**Mr DAVID SHOEBRIDGE:** Can you take that on notice?

**Ms HORVAT:** I am happy to take it on notice.

**Mr DAVID SHOEBRIDGE:** Then you talk about the people who are going to be winners and losers with the transition from an ESL, which is the current system, to the FESL. One of the classes of losers who will pay more are people whose property was undercapitalised. Is that correct?

**Ms HORVAT:** Correct.

**Mr DAVID SHOEBRIDGE:** So if they have a modest house on a high-value property they will be relatively losers, will they not?

**Ms HORVAT:** The example we were more inclined to think of along the undercapitalised was—I do not know—the storage warehouse in the middle of Double Bay where the property value is incredibly expensive but their insurance on the storage warehouse may not be that high.

**Mr DAVID SHOEBRIDGE:** Once this scheme goes in, those kinds of employment-based warehouses and industrial places on high-value land are going to find themselves paying a lot more and there would be likely further push to kill off that industrial and employment base and turn it into residential. You say that in your submission, do you not?

**Ms HORVAT:** After the calculator was put online and some of those knowns and unknowns about the data limitations were filled in, the Government realised that the variant force of those commercial and industrial sectors was much greater than they had expected or intended. That was the basis of the decision to defer.

**Mr DAVID SHOEBRIDGE:** But if you could go to the example that I gave you, which is a fairly clear one and much more common, a high-value piece of land with a very modest house on it in a residential area, they are going to be relatively losers because they are going to be undercapitalised, are they not?

**Ms HORVAT:** Potentially.

**Mr DAVID SHOEBRIDGE:** You say potentially—

**Ms HORVAT:** No, sorry, I cannot answer that clearly. I mean it would obviously depend on what their insurance for their contents et cetera was as well. But assuming that it is average—

**Mr DAVID SHOEBRIDGE:** Assume that they have got a building. We are just talking about building insurance. They have got a very modest house on a high-value piece of land—

**Ms HORVAT:** It is likely that they would pay. FESL would increase their levy, yes.

**Mr DAVID SHOEBRIDGE:** They will pay more?

**Ms HORVAT:** Yes.

**Mr DAVID SHOEBRIDGE:** But somebody with a huge, multimillion dollar palace on the same block of land will pay relatively less.

**Ms HORVAT:** Well, if they were insured, yes.

**Mr DAVID SHOEBRIDGE:** Yes, assuming they were insured and that they have got their—

**The CHAIR:** But surely you are more likely to be insured if you have a palace than if you have got a small, modest residence on the property.

**Mr DAVID SHOEBRIDGE:** Just answer the question. Somebody with the same block of land, but with a multimillion dollar palace—instead of a modest house—would be better off?

**Ms HORVAT:** Yes. I think I have said yes.

**Mr DAVID SHOEBRIDGE:** This is designed to transfer the burden from relatively well-off people with very substantial houses to relatively less-off people with less substantial houses. It is a direct gift to the wealthy, is it not?

**Ms HORVAT:** I do not accept the premise of your question.

**Mr DAVID SHOEBRIDGE:** Tell me how it is wrong.

**Ms HORVAT:** As I said, on average households would be better off. So on average—



**Mr DAVID SHOEBRIDGE:** But the ones who will be better off are the ones with the multimillion dollar palaces.

**The Hon. TREVOR KHAN:** Let her answer it. You do not need to steer. Let her answer the question.

**Ms HORVAT:** On average, households would be better off. The FESL was levied on an ad valorem rate per \$100,000 of unimproved land value. The more value your land the more FESL you were liable to.

**Mr DAVID SHOEBRIDGE:** You know I am talking about the improvements on the property, not the unimproved land values. The comparison I am asking you to make is two pieces of land with the same unimproved value but one with a modest dwelling on it and the other with a palatial dwelling on it. Will the one with the palatial dwelling be better off under the Government's proposed FESL? Yes or no?

**Ms HORVAT:** I think I have answered your question, yes.

**Mr DAVID SHOEBRIDGE:** In an already unequal society, who would design a system to make those with more pay less?

**Ms HORVAT:** As I say, the system is designed with those with more land value to pay more and the objectives of the FESL still stand. The desire to fund emergency services through a fairer and more efficient system still stands.

**The CHAIR:** How much did the Government lose when HIH went down?

**Ms HORVAT:** That is before my time. I would have to take that on notice.

**The CHAIR:** Yes, please. Is that not part of the nub of the automatic assumption that if an insurance company gets into trouble it cannot make its remittances to the Government as and when required?

**Ms HORVAT:** I would have to take that on notice.

**The CHAIR:** The answer to that is yes, if you are having cash flow issues.

**Ms HORVAT:** I think there have been a lot of reforms done to insurance since the HIH experience.

**The CHAIR:** Will you take on notice what it was when HIH, FAI, et cetera—the Adler bunch of crooks—went down? And how much was not paid to the Government in unpaid levies at that time? Obviously that would then illustrate that it is probably one of the drivers in relation to what is going on here. The insurance industry has been levying in the past, as it is required to in law. When insurance companies cannot make the cash flow payments to the Government, the Government looks around for a more efficient growth tax to cover its service requirements. Is that right?

**Ms HORVAT:** No, this was a revenue neutral tax implementation.

**The CHAIR:** No, that was not my question. That was not the point I was making and you know that.

**Ms HORVAT:** Well, that is not a growth tax, Mr Chair.

**The CHAIR:** You know I was not making that point at all.

**Ms HORVAT:** That is not a growth tax, Mr Chair, a revenue neutral tax.

**Mr DAVID SHOEBRIDGE:** What did the modelling suggest would be the change in the number of insurance premiums? Did modelling suggest an additional X per cent of householders would get premiums? If so, did the modelling suggest how much additional revenue that would produce for the insurance industry? If so, how much?

**Ms HORVAT:** The first part of that I think I would respond by saying that when Victoria implemented its fire and emergency services levy they did see a take-up in insurance and New South Wales would expect a similar take-up. I am happy to take the latter part of the question on notice.

**Mr DAVID SHOEBRIDGE:** How many additional insurance policies was that expected to deliver? What was the expected total increase premium take for insurers?

**Ms HORVAT:** I will take the question on notice.

**(The witness withdrew)**

**(Short Adjournment)**

**SIMON GILKES**, New South Wales Valuer General, affirmed and examined

**ANNA WELANYK**, Former Executive Director, Valuation Services, Property NSW, affirmed and examined

**The CHAIR:** Would you like to make a short opening statement?

**Mr GILKES:** In December 2015 the New South Wales Government announced its intention to introduce a property-based levy to fund fire and emergency services in the State. NSW Treasury engaged with the Office of the Valuer General along with Revenue NSW, the Office of Local Government and local government representatives in implementing the levy. As Valuer General I was represented on a number of implementation steering committees and working groups, particularly providing input with regard to valuation matters and the data required to support the levy. Valuation Services within Property NSW manages the valuation system on my behalf and today I am accompanied by Ms Anna Welanyk, who was Executive Director Of Valuation Services during the period of the emergency services property levy implementation.

Valuation Services established a project to manage the implementation of the valuation requirements for the levy. A major body of work was undertaken in collaboration with local councils to identify the data required to support the levy, specify data exchanges, establish data bases to hold and manage the data and to match and quality assure the data. Valuation Services provided Treasury with a series of data extracts as information was gathered throughout the process. As the levy was to be collected alongside council rates, valuing years for rating across New South Wales were harmonised. This was to ensure that the levy was charged on an equivalent basis. Harmonisation required the issue to landholders of approximately 2.5 million notices of valuation in the first half of 2017 and the electronic delivery of new valuation lists to all councils. Previously land values for rating were provided to landholders and councils every three to four years on a rolling cycle of approximately 700,000 to 800,000 notices per year.

The harmonisation of the valuation cycle for rating brought forward some work previously distributed over a three-year period to a single year. This resulted in a transfer of the majority of the workload and costs for the issue of valuations for rating to financial year 2016-17—the first year of the new valuation cycle—bringing future expenditure forward. The principal effects were: issuing approximately 2.5 million notices of valuation in one year, rather than over three years; additional contact centre volume and activity; additional objections to land values; and additional printing and mailing costs. It should be noted though that as land values are assessed for all land every year, there was no additional workload in making the valuations.

Preparation for the Fire and Emergency Services Levy required operational and system development, project management and communication with stakeholders and the public, including: processing systems development for the delivery to Treasury of estimates of land values within a range of classifications along with the supporting data; development of new processes and systems to enable the monitoring of council compliance with property classification requirements; communication with landholders across the State regarding the issue of new land values and explaining their use in the calculation of the levy; communication with councils for the issue of new land values; and project management.

Details of project costs are contained in my submission along with a letter of assurance from the Chief Audit Executive of the Department of Finance, Services and Innovation. Costs to the valuation system associated with the implementation of the Fire and Emergency Services Levy have been recorded in two categories. Stage one expenses were directly related to the implementation of the Fire and Emergency Services Levy and primarily comprise costs associated with new data exchanges and associated adjustments to information technology [IT] systems. Stage two expenses related to the harmonisation of the valuing years for rating and represent the incremental cost in 2016-17 of bringing forward future expenditure associated with the issue of valuations.

The department's internal audit group reviewed expenditure for Valuation Services of the Fire and Emergency Services Levy implementation project following the project's closure. The audit letter concluded that based on the sampling undertaken, the expenditure for the 2016-17 financial year appears to be materially supported by underlying evidence and based on sound assumptions. Finally, I would like to take this opportunity to recognise the contribution of staff from my office and Valuation Services involved in this project. Their often significant efforts enabled me, as Valuer General, to meet my new obligations under the Fire and Emergency Services Levy Act.

**The Hon. LYNDA VOLTZ:** The Valuer General was represented on the emergency services levy reform steering committee.

**Mr GILKES:** That is correct.

**The Hon. LYNDA VOLTZ:** Has that committee met since the FESL had ceased to act?

**Mr GILKES:** Not to my knowledge.

**The Hon. LYNDA VOLTZ:** Have there been any meetings regarding FESL or an alternative scheme?

**Mr GILKES:** Not that I am aware of.

**The Hon. LYNDA VOLTZ:** Could you take that question on notice?

**Mr GILKES:** I could, yes.

**The Hon. LYNDA VOLTZ:** Your assessment looked at ensuring that FESL was collected on an equivalent basis.

**Mr GILKES:** That is right. Previously, land values were issued for local council rating on a rolling three-year cycle, so each year approximately a third of the councils in the State would receive new valuations for rating. At any one point in time, there would be valuations from three different years being used to levy rates. In preparation for the levy, we issued new valuations for all councils as at 1 July 2016, so that all councils would be rating on the same value base and the Fire and Emergency Services Levy would also be charged on the same value base across the State.

**The Hon. LYNDA VOLTZ:** That was to ensure that the land services levy was equitable for all land owners?

**Mr GILKES:** That was the intent of that, yes, to make sure that the levy was being charged on the same basis regardless of what council area the property was in.

**The Hon. LYNDA VOLTZ:** Did you have any information to suggest that the previous scheme, the Emergency Services Levy, was not being equitably, or on an equivalent basis, proportioned across all landowners or home owners with insurance policies?

**Mr GILKES:** No, I did not, but that is outside the remit of the role of the Valuer General. My role is to manage the valuation system to provide a distribution mechanism for land-based rates and taxes. I do not get directly involved in taxation design nor in determining the way that those values are actually applied for rates or taxes.

**Mr DAVID SHOEBRIDGE:** You implement it, to be fair.

**Mr GILKES:** I implement the land valuations and provide those to the various rating and taxing authorities, so they can use those valuations as their distribution mechanism.

**The Hon. LYNDA VOLTZ:** As a member of the emergency service emergency levy reform group, I assume your views were sought on the proposed FESL when it was being implemented.

**Mr GILKES:** My recollection is only at a broad level, to the extent that I recognised that these types of levies, based on property values, are a common method of charging for emergency services around the country. From my perspective, there is no issue with doing that.

**The Hon. LYNDA VOLTZ:** It is not a charge really, is it; it is a tax?

**Mr GILKES:** Yes, it is a tax.

**The Hon. LYNDA VOLTZ:** And it is a tax based on your land ownership?

**Mr GILKES:** Yes, and it was to be implemented based on the value of your land.

**Mr DAVID SHOEBRIDGE:** Implementing this levy required some significant reorganisation of and additional resources in your office, is that right?

**Mr GILKES:** Not so much within my office; the office of the Valuer General itself is only a small quasi-regulatory office. Most of the work was done within Valuation Services, which is part of Property NSW. Valuation Services operates the valuation system on my behalf. Probably the first point to make is that there certainly was some significant body of work required, but the making of the valuations was not affected because all land in the State is already valued every year.

**Mr DAVID SHOEBRIDGE:** But you said the harmonisation of the valuation cycle for rating brought forward some work previously distributed over a three-year period to a single year.

**Mr GILKES:** That is correct.

**Mr DAVID SHOEBRIDGE:** What was the impact of that on your office?

**Mr GILKES:** Within my submission there are details of the finances. The major impact of that harmonisation process was the bringing forward of work from future years. All of those valuations would have been issued on notices of valuation over a period of time, but that was being done in a single year. As I mentioned previously, we expected that it would result in an increase in that year of the volume of calls and inquiries to our contact centre. Also, when new valuations are issued to landholders on a notice of valuation, they have a right to object to that land value if they consider it to be incorrect, and we expected that that would lead to an increased load in terms of objections in that financial year.

**Mr DAVID SHOEBRIDGE:** Has your office been restructured so you are doing every property on a three yearly cycle, in the same year, or how is it being done?

**Mr GILKES:** All land is still valued every year.

**Mr DAVID SHOEBRIDGE:** What about notices?

**Mr GILKES:** Notices of valuation are currently planned to go out again on 1 July 2019. We have adopted that as the new valuation cycle.

**Mr DAVID SHOEBRIDGE:** From my reading of tab A to your submission, the additional cost of your office between the actual spend in 2016-17 and the forecast over 2017-18 is more than \$5 million. Is that right?

**Mr GILKES:** As I said, most of the costs relate to valuation services within Property NSW. But, yes, the initial forecast for the costs related to the bringing forward of the valuations, which are the costs listed under stage 2 on the table at tab A. As you can see, \$4.335 million was the initial estimate. That was based on a series of assumptions around the impact that we might see in terms of increased inquiries or increased objections. I would stress that they were assumptions that were made prior to the issue of the valuation. So they were, if you like, an assumption to make sure that there were adequate resources planned for to be able to deal with the load that might have come out of that. As it turned out, the actual level of inquiry and the volume of objections received was substantially less than was initially estimated. That, to a large extent, drove the revised forecast for 2017-18.

**Mr DAVID SHOEBRIDGE:** Was \$3.8 million what you actually spent on stage 1 and stage 2 in 2016-17?

**Mr GILKES:** That is correct.

**Mr DAVID SHOEBRIDGE:** Given we are in August, do you now know how much was spent in 2017-18?

**Mr GILKES:** I do not have those costs broken down in the same way. The budget that is shown in tab A was from the budget as it was kept by the project manager who was running the project. When it was announced that the levy was not to proceed and the project was wrapped up, the outstanding objections, inquiries and so on simply became business as usual. So they have been recorded through the normal financial recording systems, which do not break down into the same classifications. I do not have that information though.

**Mr DAVID SHOEBRIDGE:** Can you get it?

**Mr GILKES:** Yes, but I do not believe I can provide it in the exact same format.

**Mr DAVID SHOEBRIDGE:** With whatever limitations is fine. However, we can at least say that the well over \$1.1 million for stage 1—which was all about governance, program management, communications, etc.—was all spent on a scheme that is now dead in the water. Is that right?

**Mr GILKES:** That is correct. They were actual costs that could be directly related to the—

**Mr DAVID SHOEBRIDGE:** I am not holding blame against you on this, but that is money that has been wasted and not recoverable on a scheme that is not going ahead.

**Mr GILKES:** Yes, it has been spent and the scheme is not going ahead. A proportion of some of the works provides some ongoing benefit, but the bulk was directly related to the implementation.

**The Hon. LYNDA VOLTZ:** In the Treasury submission it states:

The NSW Valuer General does not currently estimate improved land values. The imposition by New South Wales of a FESL based on improved values was estimated to have a one-off cost of over \$140 million with annual additional costs of \$30 million.

To whom does the cost apply?

**Mr GILKES:** It would be a cost to the system as a whole. At the moment, the valuations that we make are what are called "land values", which assume that all the land is vacant, and the databases are all constructed on that basis. We do not have details of the built environment across New South Wales. To implement a rating or

taxing system based on capital improved values requires first of all that data be collected, which is quite problematic. There is no single source of truth for that data across New South Wales. Bits and pieces of it are held by—

**The Hon. LYNDA VOLTZ:** That is fine. It just was not clear who the cost would apply to.

**Mr GILKES:** It would be a cost that would become part of the cost base of the Valuer General.

**The Hon. LYNDA VOLTZ:** Do you issue 2.5 million notices of valuation each year?

**Mr GILKES:** No, on the years when we issue new valuations for council ratings we will issue 2.5 million notices of valuation.

**The Hon. LYNDA VOLTZ:** Essentially, I am asking: is 2.5 million the total pot?

**Mr GILKES:** Yes, that is the number of properties.

**Mr DAVID SHOEBRIDGE:** But normally it is done over a three-year cycle. Is that right?

**Mr GILKES:** That was done over a three-year cycle. All valuations are made and provided to Revenue NSW for land tax purposes, which is levied on new valuations each year. But for council ratings, councils have a series of valuations that they use for a three-year period.

**The Hon. TREVOR KHAN:** Table 1 has 3.2 million as the number of properties.

**Mr GILKES:** The difference there is that there are 2.5 million land parcel properties, and then on top of that there are individual strata units, for which the valuations are calculated based on the unit entitlement of each unit. Those valuations are actually provided to the Revenue NSW and were provided for the purpose of the Fire and Emergency Services Levy because they are individual occupations, if you like. But they do not require additional valuation because what is valued with a strata scheme is the site of the scheme. That valuation is then portioned between the individual units based on their unit entitlement under the strata scheme.

**The Hon. LYNDA VOLTZ:** Is the 5 per cent of homeowners who do not have insurance part of the 3.2 million or the 2.5 million?

**Mr GILKES:** I am not sure, I am sorry. I do not know the answer to that question.

**Mr DAVID SHOEBRIDGE:** Do people get a valuation regardless of whether they are insured?

**Mr GILKES:** Yes, that is right.

**Mr DAVID SHOEBRIDGE:** The people who are not insured are as likely to get a valuation from you as are the people who are insured?

**Mr GILKES:** Yes. The reason I cannot answer the question is that insurance is well outside my remit. I have no knowledge of it.

**Mr DAVID SHOEBRIDGE:** In your experience, if we were to look at the activity on land that has most changed in Sydney that is failing to be picked up in terms of ratings and the work you do, would it be fair to say that the explosion of apartment blocks and the increased amount of strata properties is where there is large amounts of economic activity and capital that is not contributing to ratings and land valuations?

**Mr GILKES:** A significant part of it is included. For example, when an area is rezoned to allow greater density, that information then flows straight into the land values. What we have seen over the last few years when I have issued new valuations is that the areas that have seen the greatest increases in values tend to be those areas where there has been a change in the density permissible. That is captured in the land value. But individual titles—

**Mr DAVID SHOEBRIDGE:** But only to a degree, is it not? Have you done an analysis to work out the divergence between the increase in the land value compared to the increase in the overall property value?

**Mr GILKES:** No, I have not.

**Mr DAVID SHOEBRIDGE:** Do you think it would be a useful analysis to do to work out if that is an area where we are getting a significant divergence between property owners and actual contributions to either rates or other land-based values?

**Mr GILKES:** Certainly, it could be, yes.

**Mr DAVID SHOEBRIDGE:** In your experience, looking across the system as a whole, do you think that is probably the area where we are getting the biggest divergence going forward?

**Mr GILKES:** I think it probably has been over the recent years particularly. As we are all aware, there has been a very substantial boom in the residential market in Sydney in particular. The issue around units is less of an issue elsewhere in the State, I would suggest.

**Mr DAVID SHOEBRIDGE:** In your opinion, was the change to the Fire and Emergency Service Levy that was proposed going to fairly distribute the cost amongst strata owners or were we still going to see a disparity between strata property owners and other residential owners?

**Mr GILKES:** With the distribution, strata owners would have got a share of that levy. Is that the most equitable way to do it? I do not know. I did not do the modelling and I have not seen the modelling.

**Mr DAVID SHOEBRIDGE:** In the working party, was there any of that kind of modelling done?

**Mr GILKES:** No, the involvement I had in the working party was more about actually identifying the data that we would be able to capture and setting up processes to go about doing that.

**Mr DAVID SHOEBRIDGE:** But if someone owns a multimillion dollar penthouse in a very large apartment block and the levy goes from being paid on the insurance that they pay for their building to a proportion of the land value, in your experience would it be fair to say that property owner would have been likely to see a significant benefit in the transition?

**Mr GILKES:** I honestly do not know.

**Mr DAVID SHOEBRIDGE:** That is because you do not value the improved land.

**Mr GILKES:** I do not value the improved land and I do not know how much they are paying as a levy on their insurance either. The actual charging of the levy is not something that I engaged with in great detail. My role and those acting for me in this process was around how to implement a set of values on which the levy could be charged.

**Mr DAVID SHOEBRIDGE:** You were given a project to see how we could implement it.

**Mr GILKES:** Essentially.

**Mr DAVID SHOEBRIDGE:** How did you come up with the costing for the transition to an improved valuation scheme? How did that come about?

**Mr GILKES:** I am sorry, I do not have the detail around that with me.

**Mr DAVID SHOEBRIDGE:** I am happy if you can give us more detail on notice, but tell us as best you can.

**Mr GILKES:** It was an estimate based on some assumptions around how much time it would take to actually capture the information about the built environment. The biggest step in making those new valuations is to get to that base data.

**Mr DAVID SHOEBRIDGE:** How do other jurisdictions do that and can you name some in the Commonwealth?

**Mr GILKES:** Victoria does it but they have a long-established database of the improved environment.

**Mr DAVID SHOEBRIDGE:** How does Victoria go about capturing it, because obviously this is a dynamic area?

**Mr GILKES:** They have a process whereby when new buildings are erected or changed they make an additional valuation, if you like, or a supplementary valuation to bring those changes to account.

**Mr DAVID SHOEBRIDGE:** Is that with data sharing with local government, or how do they get that information?

**Mr GILKES:** Yes, that information usually comes through the DA process, I believe, in Victoria.

**Mr DAVID SHOEBRIDGE:** If you were going to roll it out in New South Wales, were you going to have to interrogate council databases or was there going to be a small army of valuers heading out and looking at properties, or were you going to do a Google study? How were you going to do it?

**Mr GILKES:** We thought that it would be a combination of those approaches because there is not a consistent form in which the data is held. Parts of the data exist in some corporate databases. For example, the big land analytics companies would have some of the information.

**Mr DAVID SHOEBRIDGE:** You would have to buy it from them, basically?

**Mr GILKES:** Yes, presumably to get access to that we would have to buy that. Councils hold development application records but in a variety of formats and not necessarily for all properties. I know that there are a number of councils that do not have information on buildings that have been there for some time, for example.

**The Hon. TREVOR KHAN:** What is a land analytics company?

**Mr GILKES:** The companies that provide information about the property market and so on and so forth: Domain, RP Data, those kinds of firms.

**Mr DAVID SHOEBRIDGE:** In some ways Domain, realestate.com.au and those kinds of firms probably have more detailed data on property values than the New South Wales Government or the local government sector, because they have got the churn.

**Mr GILKES:** On a subset properties is part of the issue because it is those properties that have been bought and sold that go to make up those databases.

**Mr DAVID SHOEBRIDGE:** Can you finish telling us how you would do the valuation? Some of it is with analytics and some of it is with patchy council data. I assume where there were gaping holes somebody would go out and have a look?

**Mr GILKES:** Yes or there is an approach that has been taken in Ireland in the last few years where a large part of that data was crowdsourced, which is another option we would look at as a way to at least fill those gaps or to confirm what information we had.

**The Hon. TREVOR KHAN:** Sorry, what does that mean?

**Mr GILKES:** Basically the way that it worked in Ireland was that landowners were asked to fill in a return detailing what their improvements were like.

**The Hon. CATHERINE CUSACK:** Do we not do that at the moment?

**Mr GILKES:** No, we do not because at the moment we only make land values.

**Mr DAVID SHOEBRIDGE:** Our current system is blind to improvements.

**Mr GILKES:** That is right.

**The Hon. TREVOR KHAN:** That is why it is called unimproved capital land.

**Mr GILKES:** Yes.

**Mr DAVID SHOEBRIDGE:** When you talk to your colleagues in Victoria and the like, is their system significantly more expensive to administer? Do they say there are improvements? What is the feeling amongst the valuing community about improved as opposed to unimproved valuations?

**Mr GILKES:** Generally speaking it is more expensive to administer an improved value system than an unimproved value system because the built environment changes more often than land. Once you have the land base set and well understood—and the same approach applies with improved capital values; once you have the base established the maintenance of the base is obviously far less expensive than putting it in place in the first place. With a land value base, that changes less than an improved value base because buildings change all the time. People renovate houses, things get knocked down and rebuilt. The land, unless there has been some change in the way you can use that land, essentially tends to stay the same.

**Mr DAVID SHOEBRIDGE:** It would be an extremely valuable database for both local governments and the State government to have. It would give a suite of additional policy options they could have in terms of rating.

**Mr GILKES:** Certainly, there are a whole lot of things that are available through that kind of database that are not available in what we have. Ms Welanyk just reminded me that with the way things are generally speaking we would still be required to do land values as well as improved values and indeed in the other States they do.

**Mr DAVID SHOEBRIDGE:** If for no other reason than for rating notices for local government?

**Mr GILKES:** No, for land tax because land tax is levied across the country on site values rather than improved values. The other jurisdictions make those valuations as well.

**The Hon. SHAOQUETT MOSELMANE:** What was the foreseen financial impact on local government when they took handle of the FESL process?

**Mr GILKES:** When it was cancelled, did you say?

**The Hon. SHAOQUETT MOSELMANE:** Yes.

**Mr GILKES:** I do not know the answer to that, I am sorry. I know that Treasury made inquiries with local government to work that through.

**Mr DAVID SHOEBRIDGE:** This may be an area outside your expertise, but is it the opinion of the valuation community or is it your opinion that there is greater equity in doing a valuation based upon the improved land value as opposed to the unimproved land value? Is there an equity discussion in this?

**Mr GILKES:** There is, but there are winners and losers in whatever system you apply. The argument that has always been made in the past in favour of land value based taxation is that it taxes what has been described as the unearned increment in value, which is the increase in value that comes about due to the actions of society around that particular piece of land, whereas when you levy rates or taxes on the improved value of a property you are levying a tax on someone's effort. If they improve their property, they pay more tax.

**The Hon. TREVOR KHAN:** If you have a terrace in Paddington that was bought in the 1960s that granny has been living in throughout that period and seen her kids off from, if it is a three bedder it is now worth \$2.5 million to \$3 million without any painting being done on it, where is the effort that has produced that amazing increase in value over that time?

**Mr GILKES:** Indeed that increase in value that you are talking about, if we are imagining a circumstance of here is a house that has been sitting there for 30 years untouched, the vast bulk of that increase in value will go into the land value. Because what you find is as values increase the land value makes up a greater and greater proportion of the total value of the property because the difference in building costs is not great.

**The Hon. CATHERINE CUSACK:** Have you visited jurisdictions such as New Zealand where they tax the improved value?

**Mr GILKES:** Yes, and I talk to other valuers general.

**The Hon. CATHERINE CUSACK:** The reason I ask is that I understand they have a big problem with land banking. Because there is no tax on unimproved land, there are big tracts of land for which there is no incentive to develop it for housing.

**Mr GILKES:** Certainly, one of the other arguments made in favour of land value-based taxation is that it tends to encourage the full development of land.

**Mr DAVID SHOEBRIDGE:** I will provide an example that I gave to an earlier witness. If you have a high-value piece of land with a modest property on it and an adjoining piece of high-value land but with a palatial property on it, on an unimproved value basis they are subject to the same tax.

**Mr GILKES:** That is correct.

**Mr DAVID SHOEBRIDGE:** What is not being taxed in that case is the capital investment.

**Mr GILKES:** That is right.

**Mr DAVID SHOEBRIDGE:** If you thought it was equitable to try to tax capital in addition to land—I know they are two classes of capital—you would tax the improved land by having an improved valuation.

**Mr GILKES:** That is correct.

**The Hon. CATHERINE CUSACK:** But if you were trying to activate that land then clearly a tax on the land value is the more efficient way to go.

**Mr GILKES:** It tends to drive the development of land to its maximum—

**The Hon. CATHERINE CUSACK:** Especially if taxpayers are investing in infrastructure around the area.

**Mr GILKES:** Yes.

**Mr DAVID SHOEBRIDGE:** So developers benefit and taxpayers pay for it—

**The Hon. CATHERINE CUSACK:** No, that is incorrect.

**Mr DAVID SHOEBRIDGE:** —how is that good?

**The Hon. CATHERINE CUSACK:** One is a tax on developers.

**The Hon. LYNDIA VOLTZ:** Point of order: Perhaps Mr Gilkes could answer a question rather than members debate the issue. It is interesting but we could have the debate in the Chamber.



**Mr DAVID SHOEBRIDGE:** Am I mischaracterising it in terms of developers benefiting?

**Mr GILKES:** No, what you said is exactly true. In the end, it is a societal value judgment as to what society thinks is the most appropriate thing to do. Both systems are used in jurisdictions across the world and both provide a mechanism for charging land-based rates and taxes. The question as to which is the preferable system is not one for me as Valuer General to address. My role is to provide the base, whatever it is decided to be, on which the distribution can occur.

**Mr DAVID SHOEBRIDGE:** The data that you have provided—which is fascinating—is that there are about 2.6 million to 2.7 million occupied residential properties and about 75,000 vacant residential properties. That is on page 2.

**Mr GILKES:** That is table 1.

**Mr DAVID SHOEBRIDGE:** That is as at 1 July 2016. Do you know if the number of vacant properties has increased or decreased since then? How do you determine vacancy from your database?

**Mr GILKES:** These classifications are a large part of the work that happened in the lead-up to the planned implementation of the Fire and Emergency Services Levy [FESL]. The classifications actually came from local government. The work that NSW Valuation Services did with local councils involved councils classifying and identifying vacant properties. They provided that information to us long with the details of properties that were subject to pensioner discounts and the classification of properties into those various other land classes.

**Mr DAVID SHOEBRIDGE:** Do you know how they identified vacant properties? Was the identification based on water bills, overflowing letterboxes—

**Mr GILKES:** I suspect a variety of processes were used across the State. The scale of the issue would vary dramatically from place to place.

**Mr DAVID SHOEBRIDGE:** Do you think that figure is robust?

**Mr GILKES:** I believe so. The people in NSW Valuation Services worked closely with people in local government in collecting the data to ensure it was being done in a reasonable fashion. I have no way of being certain it is correct, but I believe it has been done to the best of their ability.

**Mr DAVID SHOEBRIDGE:** I would like you to look at some of the Census data and other data sources relating to vacant properties. I think the figure was 2.7 per cent, but that is a very small rate for vacant residential properties. I would like you to establish whether or not you think the figure is robust by doing a small review of the other data sets available.

**The Hon. TREVOR KHAN:** Is that 2.4 per cent of the total or 2.4 per cent of the—

**Mr DAVID SHOEBRIDGE:** I could be wrong, but I believe it is 74,000 compared to 2.7 million. It is a very small proportion of empty properties. We are all aware of—

**The Hon. TREVOR KHAN:** Anecdotal information.

**Mr DAVID SHOEBRIDGE:** Yes, and other reporting that would suggest the vacancy rate is significantly higher than that.

**Mr GILKES:** Are you talking about "vacant" as, for example, a home unit that is not leased or not occupied?

**Mr DAVID SHOEBRIDGE:** Yes, or a property that is not leased.

**Mr GILKES:** This is land that is not developed. It would be residential lots without a building.

**Mr DAVID SHOEBRIDGE:** Thank you for clarifying that.

**Mr GILKES:** The logic in terms of the levy is that naturally properties that have buildings on them are more likely to require services.

**The Hon. TREVOR KHAN:** Or to burn down.

**Mr DAVID SHOEBRIDGE:** If there is no building on it a building is less likely to burn down.

**The Hon. LYNDA VOLTZ:** That is probably true. I refer to the 3.2 million valuations issued. Treasury has identified that 5 per cent of home owners are not insured. Given the total of 3.2 million properties, that would be roughly 160,000 properties that are not insured. The total figure for pensioner discounts on properties is 480,000, so 160,000 is about one-third of that figure.

**Mr GILKES:** Yes.

**The Hon. LYNDA VOLTZ:** The assumption could be that those not insured are within that pensioner discount figure. That is an assumption; I am not asking you to make a statement about that.

**Mr GILKES:** Good.

**The Hon. LYNDA VOLTZ:** Would you agree that 160,000 based on your 3.2 million figure would be the number of home owners who do not have any insurance?

**Mr GILKES:** I have not collected or collated the number of people who do or do not have insurance. That is the number that was quoted and, yes, that would be a proportion of the 3.2 million.

**Mr DAVID SHOEBRIDGE:** How is non-vacant industrial property included in a pensioner discount figure? That seems unusual.

**Mr GILKES:** Yes. Indeed, when I wrote to the Treasurer to provide these estimates I drew attention to the fact that we had been advised of some properties which had pensioner discounts but which would appear not to be eligible.

**The Hon. TREVOR KHAN:** What you would anticipate?

**Mr GILKES:** Yes, that is right.

**Mr DAVID SHOEBRIDGE:** And you have not had a response; that has not been resolved?

**Mr GILKES:** That is a matter for local councils because they apply pensioner discounts.

**Mr DAVID SHOEBRIDGE:** And the same would apply to commercial property?

**Mr GILKES:** Yes. Those matters were drawn to the attention of the particular councils as part of our—

**Mr DAVID SHOEBRIDGE:** Can you provide on notice, as best you can, where these commercial and industrial properties are that are getting the pensioner discount?

**Mr GILKES:** I believe we would be able to track that information. However, I do not know whether they are still getting the discount. As I said, part of the process of gathering this information was to review apparent anomalies and to make inquiries of councils. These issues may have been resolved in the interim.

**The Hon. LYNDA VOLTZ:** In some streets you might have buildings with a commercial property at the street level and a flat above. How do you separate them when you use only land value?

**Mr GILKES:** It depends on the nature of the particular development. There is provision within the Valuation of Land Act for what is called a "mixed development apportionment factor", which is a calculation of the percentage of the value that is represented by the business element versus the bit that is represented by the residential element. It requires certain features such as separate forms of access and so on to ensure they are genuinely separate occupations and not just a shop and a residence.

**The Hon. LYNDA VOLTZ:** What about permanent residences in commercial enterprises such as caravan parks? Sometimes caravan parks have permanent residents.

**Mr GILKES:** The caravan park is valued.

**Mr DAVID SHOEBRIDGE:** A witness from Treasury stated earlier that ongoing work was being carried out on FESL. Her evidence was, "Well, we can't give you the details about that ongoing work because it is all Cabinet-in-confidence." Are you part of ongoing work in the area? Is your office part of ongoing work on a redesign of a FESL?

**Mr GILKES:** Not at the moment. But I can imagine that there could be a whole lot of work going on that would not require my input at the moment because Treasury has received a full dataset of the values across the State and the categorisation and so on and so forth, so there could be a whole lot of analytical work done on that data.

**The Hon. TREVOR KHAN:** It just would not involve you?

**Mr GILKES:** It just would not involve me. If they required an update to the values, I would provide them with an update to the values.

**The Hon. TREVOR KHAN:** They have not required an update.

**Mr GILKES:** Not at this point.

**Mr DAVID SHOEBRIDGE:** Are you aware of any outstanding requests at the moment?

**Mr GILKES:** No.

**Mr DAVID SHOEBRIDGE:** Or likely requests?

**Mr GILKES:** No, not really.

**Mr DAVID SHOEBRIDGE:** Given the work you did in the preparation for the FESL, if they did say, "Now we want to implement this system," how quickly could you implement it?

**Mr GILKES:** The work is substantially done. Naturally enough we would need to get updated classification information from councils because some of those things would have changed, but there are processes in place now to do that, whereas before this none of those processes existed. The value base is updated on an annual basis anyway.

**The Hon. TREVOR KHAN:** You would not be able to do that if it was going to proceed on an improved capital value of a property.

**Mr GILKES:** Not without making—

**The Hon. TREVOR KHAN:** A heck of a lot of work.

**Mr GILKES:** Yes. Not without a substantial body of work.

**Mr DAVID SHOEBRIDGE:** If the Government on some arbitrary date—sometime after March 2019—determined to implement it, it could be done quite quickly.

**Mr GILKES:** Yes. I would expect so.

**The Hon. TREVOR KHAN:** If it was in its current form.

**Mr GILKES:** That is right. There would need to be updates.

**The Hon. TREVOR KHAN:** If it was, for instance, to be on an improved capital value, there would be a heck of a lot of work to do.

**Mr GILKES:** Yes. That whole database would have to be established.

**The Hon. TREVOR KHAN:** Then, entirely speculating, nothing may happen at all.

**Mr GILKES:** Yes. That is well out of my area.

**The Hon. LYNDIA VOLTZ:** As the Valuer General, when the FESL was originally introduced, did you receive complaints and do you know how many?

**Mr GILKES:** Complaints? We certainly received inquiries from landholders. When we issued new valuations at the beginning of 2017 and through the first half of 2017 to all landholders across the State, we provided them with some information about the Fire and Emergency Services Levy along with their notice of valuation—only high level information. Certainly we got some inquiries about that. In terms of complaints about the existence of the levy, if that is what you are getting at—

**The Hon. LYNDIA VOLTZ:** No. With your valuations obviously there were certain properties that had huge concerns in regards to—

**Mr GILKES:** Yes, we have received objections to valuations. I think from memory the rate was about 0.3 of 1 per cent of the valuations we issued. In doing our initial estimates we thought that there was the potential for a spike in objections because it was associated with the new levy and the like. Point three of 1 per cent is actually pretty standard for New South Wales when we issue new valuations. That is roughly the rate we get in objections.

**Mr DAVID SHOEBRIDGE:** Maybe the complaints went elsewhere.

**Mr GILKES:** Perhaps.

**The CHAIR:** Thank you very much, Mr Gilkes and Ms Welanyk, for coming today. I note that you have taken some questions on notice. Questions on notice have to be returned within 21 days. The secretariat will be in contact with you in relation to those questions.

**(The witnesses withdrew)**

**ROB WHELAN**, Chief Executive Officer, Insurance Council of Australia, affirmed and examined

**JOHN ANNING**, General Manager, Policy Regulation, Insurance Council of Australia, affirmed and examined

**TIM WEDLOCK**, National President, National Insurance Brokers Association, sworn and examined

**REBECCA WILSON**, General Manager, Austbrokers ABS, sworn and examined

**DALLAS BOOTH**, Chief Executive Officer, National Insurance Brokers Association of Australia, sworn and examined

**MICHELLE FORREST**, Executive Manager, Product, Pricing and Underwriting, Insurance Australia Group, affirmed and examined

**The CHAIR:** I welcome our next witnesses. Would one of you like to make an opening statement on behalf of the group? I notice we have insurance brokers and the insurance industry.

**Mr WHELAN:** I am happy to give the opening statement and others can add to it if time permits, Mr Chair. Thank you for the opportunity to give evidence and provide this opening statement to the Committee. The Insurance Council of Australia [ICA] is the representative body of the general insurance industry in Australia. Its members include almost all the insurers which collect the insurance based emergency services levy [ESL] on behalf of the New South Wales Government. The levy provides the bulk of the funding for the State's fire and emergency services. Over the 18 months leading up to 1 July 2017, the legislated date for the introduction of the property based fire and emergency services levy, the ICA members put considerable effort and resources into the orderly removal of the ESL. This included working closely with NSW Treasury and the ESL Insurance Monitor and his office.

In view of the industry's full cooperation and compliance with the regulatory requirements the industry was disappointed it was not consulted on the Government's decision to defer the transition to a property based levy. The Government's decision in May last year to repeal the Fire and Emergency Services Levy Act 2017 at such a late stage and reimpose upon insurers the obligation to collect the insurance based levy led to major financial and operational consequences for the insurance council members. Insurers spent tens of millions of dollars before the repeal on the system changes, compliance, communications and data requests, and more had to be spent on the levy's reintroduction.

The ongoing information requirements imposed by the emergency services insurance monitor are extensive and costly to meet. It is hard to see a connection between much of the monitor's current activity, such as a report on insurance and big data, and his levy monitoring role. Given that insureds pay for the monitor through the ESL, the insurance council recommends that this role be reconsidered in light of the Government's ultimate policy intentions. New South Wales continues to be the only mainland State that, contrary to good public policy, funds its fire and emergency services through an insurance based levy. As recently as 3 August the Productivity Commission advocated for the removal of taxes on insurance.

The ESL levy, when combined with GST and stamp duty, results in householders in this State paying about 45 per cent tax on their final insurance bills, compared with just 10 per cent in the Australian Capital Territory and 22 per cent in South Australia. This means that New South Wales households pay a much higher proportion of tax on their insurance premiums than any others and small businesses are even worse off, paying up to 60 per cent in taxes and levies. It is a strong disincentive for New South Wales residents and businesses to ensure that they have adequate insurance.

Under an insurance-based levy the owners of uninsured properties do not contribute directly to the funding of emergency services and the owners of underinsured properties contribute less than those who are fully insured. The insurance-based levy therefore penalises policyholders for effectively managing their risks and encourages non insurance and underinsurance. The Insurance Council of Australia [ICA] believes that a property-based levy remains the most economic, effective and efficient to fund the New South Wales emergency services. It is consistent with the user-pays principle for government services, encourages adequate use of insurance and is a more efficient and certain way for government to collect revenue. The ICA and its members reaffirm their willingness to work with the Government to achieve this reform, which would have an overall benefit both to insurers and to the State economy. I am happy to take questions.

**The CHAIR:** Mr Wedlock, would you like to make a brief opening statement on behalf of the brokers?

**Mr WEDLOCK:** I would not mind making a very brief opening statement. The National Insurance Brokers Association represents more than 320 insurance broking firms across Australia, advising our clients on risk, risk management, insurance programs and claims. Insurance brokers process more than \$20 billion in

insurance premiums each year, nearly half the total of general insurance premiums paid. In our written submission to this inquiry we warned that small and medium business owners would suffer bill shock when they renewed their insurances in May and June this year. This was because in May and June 2017 they paid no ESL levy on their property insurance. This year, following the reinstatement of the levy, small and medium enterprise businesses paid an additional 40 per cent to 45 per cent on their property insurance premiums, at a time when underlying premiums are also rising. You could say they suffered a double whammy.

If we had the opportunity to do so, we would like to provide the Committee with any feedback on comments we receive from our clients and our members as a result of the reinstatement of the levy this year. As we state in our submission, the funding of the wonderful work undertaken across the communities by the Fire and Emergency Services by levies on insurance premiums is inequitable and unfair and adds substantially to the cost of property insurance in this State—something that should be encouraged; not taxed—and adds penalty taxes. All other mainland States have abolished this levy and New South Wales should follow suit.

**The Hon. LYNDA VOLTZ:** Mr Whelan, since the Government deferred the FESL have you met with the Minister or with any government members regarding what is proposed for the future?

**Mr WHELAN:** We met with the Treasurer at a board luncheon that we invited him to attend. We were given assurances that this was a deferment of the reform, not a cancellation of the reform—we took that on face value—and the timing was entirely up to the Government. We accepted that and offered our full cooperation in how we could go forward in the most efficient and beneficial way to customers.

**The Hon. LYNDA VOLTZ:** Did they give you any proposed time line at all for the reintroduction?

**Mr WHELAN:** No.

**The Hon. LYNDA VOLTZ:** Have you had any other meetings, other than with the Treasurer?

**Mr WHELAN:** No.

**The Hon. LYNDA VOLTZ:** Mr Wedlock?

**Mr WEDLOCK:** No.

**The Hon. LYNDA VOLTZ:** Have you also met with the Treasurer?

**Mr WEDLOCK:** We did.

**The Hon. LYNDA VOLTZ:** Independent of the ICA?

**Mr WEDLOCK:** Yes.

**The Hon. LYNDA VOLTZ:** When was that meeting?

**Mr BOOTH:** The meeting was held not long after the Government's decision to defer the property levy.

**The Hon. LYNDA VOLTZ:** What commitments did the Treasurer make at that meeting?

**Mr BOOTH:** As per the legislation that the property levy was "deferred"—that is the word used in the legislation—and that the Government was keen to keep talking with us, but we have had no subsequent conversations with either the Treasurer or Treasury or government officials.

**The Hon. LYNDA VOLTZ:** Did the Treasurer inform you at that meeting that they would be reintroducing the FESL?

**Mr BOOTH:** No.

**The Hon. LYNDA VOLTZ:** So you took away from that meeting that the plan was not to defer it or that it would not be reintroduced?

**Mr BOOTH:** Bearing in mind that this was May 2017, just shortly after the Government's decision to defer, we expected that not much would happen for the short term at least.

**The Hon. LYNDA VOLTZ:** Until after the election possibly?

**Mr DAVID SHOEBRIDGE:** Was that your expectation?

**Mr BOOTH:** That is a political call for the Government.

**Mr DAVID SHOEBRIDGE:** I was asking about your expectation.

**The Hon. LYNDA VOLTZ:** Subsequent to that have you sought a meeting with the Treasurer?

**Mr BOOTH:** No.

**The Hon. LYNDA VOLTZ:** Subsequent to that have you sought any commitment from the Government?

**Mr BOOTH:** No.

**The Hon. LYNDA VOLTZ:** Did the Treasurer indicate to you that it was likely that the reintroduction would not be until after the election?

**Mr BOOTH:** No.

**The Hon. LYNDA VOLTZ:** Mr Whelan?

**Mr WHELAN:** We were given no time line.

**The Hon. LYNDA VOLTZ:** Since that meeting have you sought a meeting with the Treasurer?

**Mr WHELAN:** No.

**The Hon. LYNDA VOLTZ:** You have not sought any meeting?

**Mr WHELAN:** No.

**The Hon. LYNDA VOLTZ:** So there are no concerns in the industry about when this will be reintroduced?

**Mr WHELAN:** We would just like it to be reintroduced.

**The Hon. LYNDA VOLTZ:** But you have made no approaches to the Government?

**Mr WHELAN:** No, they are fully aware of our position.

**The Hon. LYNDA VOLTZ:** That is based on the meeting that you had with the Treasurer where he said it was deferred—

**Mr WHELAN:** That is correct.

**The Hon. LYNDA VOLTZ:** —and not a cancellation?

**Mr WHELAN:** That is correct.

**Mr DAVID SHOEBRIDGE:** When was that? Was it around about the same time? May of last year?

**Mr WHELAN:** It was not long after the deferment. I cannot tell you the exact date because I do not have that with me, but it was not long after the deferment decision.

**The Hon. LYNDA VOLTZ:** Perhaps you could take that on notice and provide the Committee with the date?

**Mr WHELAN:** Yes, we can do that.

**The Hon. SHAOQUETT MOSELMANE:** Do you feel you have been misled?

**Mr WHELAN:** It was a disappointment, let me put it that way. A great deal of work went into the removal and it is a complex system to be able to unwind. It is a very inelegant system of funding the emergency services. It has been recognised in every other State on the mainland that this is a rather inequitable and inefficient method so it takes quite a lot of work to unwind it. So we were quite disappointed, having done that work, when the reform was deferred.

**Mr DAVID SHOEBRIDGE:** Mr Whelan, in your opening statement you referred to it not as a deferment but as a cancellation.

**The Hon. LYNDA VOLTZ:** No, that is what he said in his subsequent answer.

**Mr WHELAN:** Sorry, it was actually implied to us that it is a deferment. That we had to cancel the ESL and then had to reintroduce it but that the reform was deferred.

**Mr DAVID SHOEBRIDGE:** You said also that there were costs of that policy change. Did you put it at \$10 million?

**Mr WHELAN:** No, tens of millions of dollars. The actual cost is in the vicinity of about \$40 million. That includes the actual costs of reintroducing the ESL and the under collection that was taken by the individual insurers prior to the deferment.

**Mr DAVID SHOEBRIDGE:** Who has ended up having to pay that \$40 million?

**Mr WHELAN:** Shareholders.

**Mr DAVID SHOEBRIDGE:** As an industry you do acknowledge, do you not, that there is a lot of self-interest in the industry in the removal of the ESL?

**Mr WHELAN:** There is interest in making sure that we have an equitable and sustainable system for funding the emergency services. There is interest also in making sure that our customers are adequately insured going forward. Yes, the industry has interest in both those things.

**Mr DAVID SHOEBRIDGE:** But it is not a little interest, is it? It is an interest to the tune of hundreds of millions of dollars of additional insurance premiums that you will write, on your own analysis?

**Mr WHELAN:** There is no guarantee of that, of course. It is up to individual consumers how they spend the money they will save by a reduction in levies and taxes on their insurance policies. If they choose to increase their insurance we would say that is a prudent thing to do, particularly if they are under insured or not insured.

**Mr DAVID SHOEBRIDGE:** On my understanding the insurance industry has done some analysis and there is an expectation that there will be more than \$220 million in additional expenditure on insurance if the ESL levy is removed. Am I right or wrong on that?

**Mr WHELAN:** I will not confirm necessarily that particular figure but if that is the case in our submissions, then all I can say to you is that that is our estimate of what possibly is the level of underinsurance and non-insurance which, again, would be a positive thing for the community to have adequately insured individuals and properties in the State.

**The Hon. TREVOR KHAN:** Because if their houses burn down—

**The Hon. LYNDA VOLTZ:** Point of order: Can we just finish our questions.

**Mr DAVID SHOEBRIDGE:** Mr Whelan, you are being very coy about the number.

**The Hon. TREVOR KHAN:** Well?

**The CHAIR:** Let him finish and then I will take the point of order.

**The Hon. TREVOR KHAN:** Good.

**Mr DAVID SHOEBRIDGE:** You are being very coy about the number. On page 12 of your submission it states:

The removal of the ESL levy in NSW is estimated to increase net insurance expenditure by \$226 million (or 16 per cent) ...

**Mr WHELAN:** That is correct.

**Mr DAVID SHOEBRIDGE:** So why were you being so coy about the \$220 million benefit to the industry?

**Mr WHELAN:** I did not have the submission in front of me, but I accept that is the figure we put in our submission and I stand by my response as to why that is an important contribution to the community safety.

**Mr DAVID SHOEBRIDGE:** There is an almost quarter of a billion dollars self-interest from the insurance industry by getting \$226 million in additional premiums as a result of the change. Did you ever tell the community about the size of the financial benefit to the insurance industry or advise the Government about the size of the benefit to the insurance industries.

**Mr WHELAN:** It is in our submissions.

**Mr DAVID SHOEBRIDGE:** Did you ever see the Government communicate to the public the extreme benefit of almost a quarter of a billion dollars.

**Mr WHELAN:** You are implying in your question that there is only a benefit to the insurance companies. There is considerable benefit to the community and individuals insured by adequately insuring their properties? Surely that is a good thing for the community to have adequately insured properties, because if they do not have adequately insured properties the cost of that falls back on to the individual and possibly back on to the government. I would think that \$220 million is probably a figure that goes to the contribution of a safer, more sustainable economy and community.

**The Hon. TREVOR KHAN:** My question has been answered.

**The Hon. LYNDA VOLTZ:** In your submission, the industry offered to utilise the industry's data and expertise to this government model the rates for the new levy; however, this offer of assistance was declined. Is that correct?

**Mr WHELAN:** That is correct.

**The Hon. LYNDA VOLTZ:** A question I asked the Treasury was, Was the residential and commercial FESL levied equitably across land values or were there certain sectors where the levy was higher or lower? What it has said to us was the insurance industry itself decided how to distribute the levy. How, within the industry, did you decide to distribute the levy?

**Ms FORREST:** At Insurance Australia Group [IAG] we have various rates that we apply. We have rates for householders, we have a 1 per cent rate that applies to motor and we have a rate that applies to commercial properties.

**The Hon. LYNDA VOLTZ:** What was the rate for household?

**Ms FORREST:** On 17 September it will move to 16 per cent.

**The Hon. LYNDA VOLTZ:** And what was the rate for commercial?

**Ms FORREST:** That is IAG's rate, to be clear. And for commercial it will move to 32 per cent.

**The Hon. LYNDA VOLTZ:** That is how you decided the levies were distributed.

**Ms FORREST:** It is inherently difficult for IAG to determine their contribution to the emergency services funding because the calculation is done based on our market share. We get the market share number in December of any year and that is six months after we have collected ESL from policyholders. We constantly model our market share along with our current collection and need to move those rates up and down based on that modelling.

**The Hon. CATHERINE CUSACK:** Retrospectively?

**Ms FORREST:** We try and future predict what our contribution will be to fund the levy and model that all year to determine how much we need to collect to pay. But we are not advised of our obligation until December, which is six months after we have finished collecting for that year.

**The Hon. LYNDA VOLTZ:** Can I return to the figures. The 1 per cent, the 16 per cent and the 32 per cent, is that at the premium?

**Ms FORREST:** That is the base premium and once that rate is on there, there is effectively a tax on a tax when we see stamp duty and GST that are applied on top of that and they are cumulative.

**The Hon. LYNDA VOLTZ:** The Government's model that they will be introducing based on land value will be one rate across land values. The existing one in IAG's example is markedly different between different sectors. That is possibly where they saw a lot of people with disparity when they got the new FESL?

**Ms FORREST:** I am not familiar with the proposed new modelling.

**The Hon. LYNDA VOLTZ:** If the FESL was 16 per cent for residential and 30 per cent for commercial and constituted the same proportion once they received the new scheme, there would be marked differences in what they previously paid.

**Ms FORREST:** As I said, I am not familiar with the proposed funding model.

**Mr ANNING:** I would just like to comment that Treasury did the modelling of the rates without any input from the industry, neither were we asked to comment. I think your observation is correct, we had no role at the time.

**The Hon. LYNDA VOLTZ:** Without that background information you would see disparities when the new system came in. You would see differences in what you were paying under the new scheme based on the way the insurance industry was collecting the levy?

**Mr ANNING:** As an observation we could say, yes, you would. But we were not asked at the time to comment.

**Mr WEDLOCK:** I will comment on behalf of our insurance broking members. Whilst IAG represents what their ESL rate variances were, when we are representing clients and have access to the full insurance market, each different insurance company could modify its fire services levy depending on how the collection was going.



That range could go from 38 per cent down to 32 per cent. Whilst IAG might have 32 per cent, someone might have 30 per cent.

**Mr DAVID SHOEBRIDGE:** In some cases you said it was going up to 45 per cent.

**Mr WEDLOCK:** When it first got reintroduced that is exactly how high it went.

**The Hon. LYNDA VOLTZ:** It could be based on the mix you had in your insurance portfolio?

**Mr WEDLOCK:** Correct. As we said in our opening statements, and why I wanted to refer to it, the majority of the customers we manage are more of the commercial-type customer versus the domestic. They are going to fall into the range of 30 per cent for their fire levy. If you take the range in premium increases at the moment—this is a real example—if someone's premium was \$100,000, by the time you add another 40 per cent fire services levy and then another 10 per cent GST and 9½ per cent stamp duty, there is another \$67,000 in taxes on their base premium. If the ESL was abolished and there was a fairer distribution, that would reduce their premium back down to about \$120,000, so there is only a 20 per cent increase rather than the 67. They are the screaming concerns that come to our broking members and as a working broker what they are dealing with.

**The Hon. LYNDA VOLTZ:** Could you have the example where if you are in the insurance industry and you wanted to get a big client you could negotiate what their levy would be? Or is it lock, stock and barrel?

**Mr WEDLOCK:** It is lock, stock and barrel. In my opinion, you do not want to change insurers based on what the cheaper fire levy is. It should be about sustainability and long term; we know that. This is the frustration for the small businesses. The bigger the businesses or the businesses that have the more extreme occupations are the ones hit with the higher premium increases with the changing premium cycle at the moment. The bigger the businesses the more they can afford to take higher deductibles or higher the risk and by reducing the premium by taking on a higher deductible they can afford to reduce their fire levy. The smaller businesses cannot do that and because they do not have the money to take on higher excesses they end up copping more of the funding levy as well. If the insurance companies are not collecting it, it goes back to the small bloke.

**Mr DAVID SHOEBRIDGE:** We had a government that put your industry to very substantial expense—about \$40 million is your estimate.

**The Hon. TREVOR KHAN:** And you can see Mr Shoebridge's concern.

**Mr WHELAN:** Yes.

**Mr DAVID SHOEBRIDGE:** It created a vast amount of churn and paperwork and then reversed everything and required you to reinstate the earlier system. Would a fair characterisation of that process be "a bloody big mess"?

**Mr WEDLOCK:** Yes.

**The Hon. CATHERINE CUSACK:** You asked them to do that, Mr Shoebridge.

**Mr DAVID SHOEBRIDGE:** Does anyone disagree with that? I never asked the Government to come up with a dumb policy, impose that cost on the industry and then somersault. Does anyone disagree with characterisation of that process as "a bloody big mess"?

**Mr BOOTH:** It was a disappointing decision by the Government to defer the property levy. It was a disappointing decision and done at a very late stage.

**Mr DAVID SHOEBRIDGE:** Did any of your organisations or any people in your organisations meet with the Premier, the State, or Michael Photios in the lead-up to this?

**Ms FORREST:** No, there was no warning.

**Mr BOOTH:** No.

**Mr WHELAN:** No.

**Mr DAVID SHOEBRIDGE:** I am not talking about the cancellation; I mean the lead-up to the implementation?

**Mr WHELAN:** No.

**Mr BOOTH:** No.

**The Hon. LYNDA VOLTZ:** Mr Wedlock?

**Mr WEDLOCK:** No. The insurance companies, because of the pressure they had put upon them, they were doing everything they could to make sure it was going to be wound down to total abolishment by the due date. As a result it meant that insurance brokers also had to make sure they were doing the right thing. Otherwise they would also cop the wrath if they did not. Everything was tracking as it should have.

**Mr DAVID SHOEBRIDGE:** So there was no need to meet with Mr Photios.

**Mr BOOTH:** No, absolutely not. It was all being managed correctly.

**The Hon. LYNDA VOLTZ:** Can I just go back to my question about the differences in the rates. When you met with the Treasurer, Mr Whelan and Mr Wedlock, did you raise the issues of the differences in the rates with him, following the removal or the deferral of the FESL?

**Mr WHELAN:** We did not, no.

**Mr BOOTH:** Can I just indicate that we do make the point in our submission to the Committee that it is almost impossible for insurers to collect the right amount of levy. It is a dollar figure which is set well after the conclusion of the financial year. The levy is not a rate on premium; it is actually a dollar figure that has to be produced by the insurance company. The process is incredibly difficult and complex. It causes confusion, particularly for insurance brokers where you have different levies from different insurers. And those levies will change during the course of the year as the insurance company is trying to adjust the collection process to come in at the right amount that they think they will ultimately—

**The Hon. LYNDA VOLTZ:** Whereas if it was a proportion, that would be a clearer way for you. If it had been the 1 per cent, the 16 per cent and the 32 per cent, that would be clear.

**Mr BOOTH:** If it was a flat levy on premium it becomes a very simple process, like the GST or the stamp duty. But the way the levy is structured it is a very difficult levy to get accurate.

**Ms FORREST:** Can IAG add, as well, that even if the same levy is applied we still have the inequity in the community that the emergency services would be funded purely by people who are insured.

**The Hon. LYNDA VOLTZ:** But that is 95 per cent.

**Mr DAVID SHOEBRIDGE:** Of home owners.

**The Hon. LYNDA VOLTZ:** Of home owners.

**Ms FORREST:** I would like to take that on notice, because I do not believe that that 5 per cent of non-insurance is the number that we would see.

**Ms WILSON:** I agree.

**Ms FORREST:** We think that number would be higher.

**The Hon. LYNDA VOLTZ:** That is a good question. How did the Government come up with that figure? Did they seek—

**The CHAIR:** You are disputing the evidence we got from Treasury.

**The Hon. CATHERINE CUSACK:** No. Can I clarify this? Is the levy based on home contents, as well?

**Ms FORREST:** It is on home contents and home building, and we see a lot of underinsurance on home contents, more so than on home buildings.

**The Hon. LYNDA VOLTZ:** But on buildings it is 95 per cent.

**The Hon. CATHERINE CUSACK:** I just want to get the correct information.

**The Hon. LYNDA VOLTZ:** Let us just finish the question I asked about the 95 per cent.

**The Hon. CATHERINE CUSACK:** There is an obsession with 5 per cent, and we are clearly getting evidence that it is more complicated than that.

**Ms FORREST:** I have to take on notice whether that number is 5 per cent. We tend to have household and contents policies where we sell them together. I do not have the numbers on underinsurance but we could get them for you based on our or the industry's experience. Certainly on contents, which is also a contributor to the fund, I would anticipate that the numbers are much higher than 5 per cent.

**The Hon. CATHERINE CUSACK:** Thirty-five per cent is the figure we have been given by the Government.

**The CHAIR:** Thirty five per cent is the figure that has been quoted by Treasury.

**Ms FORREST:** That would be much closer to my expectation of underinsurance.

**The CHAIR:** Can you take that on notice too?

**The Hon. LYNDA VOLTZ:** That is on contents. But on home owners, would the 95 per cent be accurate?

**Ms FORREST:** It would be close to accurate because most people have an obligation to their mortgagees to have insurance. Could IAG please go on record, I am not comfortable with the statement that it was a big mess. I agree with Dallas that we were disappointed at the outcome but IAG is committed to working with the New South Wales Government to ensure that reform comes or to bring reform into this space. We are committed to working towards transitioning away from this inefficient collection method to fund emergency services.

**The CHAIR:** I was interested, Ms Forrest, why you are there representing IAG and we have the industry brokers and the insurance companies sitting there on the same panel with you. You probably could have come in separately if you had wanted to. Anyway, what is done is done.

**Ms FORREST:** As I understand it, I was invited to join with this panel.

**The Hon. CATHERINE CUSACK:** I have a question for Mr Whelan and then a question for Ms Forrest. This matter has a long time frame, doesn't it? We have heard from Treasury that this all kicked off in 2003, I believe, when Treasurer Egan first started reviewing it.

**Mr WHELAN:** It has a long gestation, yes, and it has been driven by a number of things. Victoria's change was probably one of the catalysts for New South Wales to move.

**The Hon. CATHERINE CUSACK:** Is it fair to say that all treasurers over that period have been approached by the Insurance Council and the issues that you have with the tax have been drawn to their attention?

**Mr WHELAN:** At some point in time that is very likely, yes. We continuously like to keep people informed about the implications of these inefficient taxes.

**The Hon. CATHERINE CUSACK:** A lot of effort has basically gone into getting to this point?

**Mr WHELAN:** Yes.

**The Hon. CATHERINE CUSACK:** Ms Forrest, I wanted to ask you, What are the complications for insurers with calculating and collecting the levy? I realise you have given us some information.

**Ms FORREST:** IAG always aims to collect the right amount of ESL, but as I said before, we are not aware of our final obligation until December in any given year, which is six months after we have finished collecting. This is because the calculation method uses each insurer's market share to determine how much of the total budget they are required to fund. This results in an unavoidable over- or under-collection from year to year as the market share is determined retrospectively.

**The Hon. CATHERINE CUSACK:** Is it fair to say that insurance premiums are determined by a risk assessment?

**Ms FORREST:** Yes, absolutely.

**The Hon. CATHERINE CUSACK:** And people can do things to mitigate their risk to reduce their insurance.

**Ms FORREST:** Yes, they can. But the percentage that we apply for ESL would remain the same.

**The Hon. CATHERINE CUSACK:** The system the Government was proposing to move to was a property value system, very different to a risk-based system.

**Ms FORREST:** Right.

**The Hon. CATHERINE CUSACK:** Mr Whelan, when you said that you offered to share data with the Government, what level of detail was that data? For example, could the Government have matched the proposed new system on a person's property—the value of that levy versus the actual premium they were paying under the old system? Would that level of detail have been available to the Government?

**Mr WHELAN:** No, it was basically modelling that we had done to provide them with an estimate of how they could go about collecting roughly the same amount of money that they are collecting from the insurance industry.

**Mr ANNING:** Just to amplify that, our members provided the data that was requested by Treasury to enable them to do the modelling. It did go to the value of the premium that was paid. I understand it was a gigantic exercise in matching up policies against valuations, but we had no role in what actually—

**The Hon. CATHERINE CUSACK:** I understand that. I am just trying to understand, What was the nature of the offer that you made to Government?

**Mr ANNING:** We offered the data—and that offer was taken up—to provide very detailed data on the policies that were in force. That was provided and we made a further offer of experience and expertise from our membership to help with the modelling, but that was not taken up.

**The Hon. TREVOR KHAN:** I am relying upon the Government submission at this point. If I look at what is identified as table 1 on page 1 of the Government's submission, it identifies the total expenditure on emergency services as expenses of \$1.2 billion and capital expenditure of \$1.18 billion. It then goes on to provide, on page 2, that the Government recovers "73.7 per cent from the insurers". I think that is the case. Am I right in saying that the Government recovers from the insurers some \$972 million or \$975 million through the ESL from the insurers? Is that maths right?

**Mr ANNING:** It fluctuates. It is about \$785 million to \$790 million.

**The Hon. TREVOR KHAN:** That is fine. GST is paid on that amount. Is that right?

**Mr ANNING:** GST is paid on top of the premium plus—

**The Hon. TREVOR KHAN:** I accept that but in terms of the ESL, that means that the Commonwealth recovers something in excess of \$75 million a year from insured because of the way it is currently recovered. Is that right?

**Ms FORREST:** Those numbers sound fair, yes, because—

**Mr ANNING:** I understand in the modelling of the impact of ESL reform there was allowance made or consideration was taken into account—

**The Hon. TREVOR KHAN:** I am not too concerned about the Federal Government at this stage. If it was recovered by a FESL of some sort, a property-based levy, do I understand, therefore, that that would not be subject to the GST?

**Mr WEDLOCK:** I think the GST would still be paid on premiums and stamp duty as well.

**Mr WHELAN:** To financial services.

**The Hon. TREVOR KHAN:** I understand it is paid on the premium and stamp duty, but if the ESL disappears then the GST on that ESL disappears as well?

**Mr WHELAN:** I am not sure. It would be like a rates notice, I guess, if you are charging it through rates. I am not sure, is GST charged on rates? I do not think it is.

**The CHAIR:** No.

**The Hon. CATHERINE CUSACK:** You do not tax taxes.

**Mr WHELAN:** So the answer would be no.

**The Hon. TREVOR KHAN:** If that logic is right, it means that the insured in New South Wales, apart from covering those who are uninsured or underinsured, are also making a contribution to the Commonwealth because it is simply the mechanism by which recovery is made?

**Mr WHELAN:** Yes, that is right.

**The Hon. TREVOR KHAN:** Every year?

**Mr WHELAN:** That is right.

**The Hon. TREVOR KHAN:** It is why, in part, you made your observations at the start in terms of the inequity of the scheme?

**Mr WHELAN:** Yes, it is totally inequitable.

**The Hon. CATHERINE CUSACK:** Do you have any data about the number of incidents involving insured properties versus uninsured properties?

**Mr WHELAN:** I could not give you that offhand. It would depend on the nature of the event. You can see differences in rural areas, coastal areas and urban areas. The penetration of insurance varies around those areas. For example, if you had bushfires—as we have had—in a coastal area that is largely holiday homes, sometimes people do not insure those as they should versus their primary home, for example. That level of difference would be different there than it would be, say, in an urban environment.

**The Hon. CATHERINE CUSACK:** When someone takes out home and contents insurance, they are insuring against theft, are they not, as well as fire?

**Mr WHELAN:** Yes, theft, fire, flood, hail—a huge range of issues.

**The Hon. CATHERINE CUSACK:** Is there any breakdown on how many of the claims are for fire and emergency versus claims for theft?

**Mr WHELAN:** In emergencies?

**The Hon. CATHERINE CUSACK:** Yes.

**Mr WHELAN:** Yes, we would have those breakdowns.

**The Hon. CATHERINE CUSACK:** Can I ask you to take that on notice? I am interested because people are paying a levy on a premium that is covering a service they are already getting, being the police coming to investigate the theft, if you see what I am saying.

**Mr WHELAN:** Sure, I get you.

**Ms FORREST:** There are several factors that influence a price that the customer pays to insure their home, car or business. The most significant driver of that is our expected cost of their future claims. Certainly we do not tend to separate those out in the way that you are suggesting. But the point that you are making is true, that customers pay a proportion of their premium that would be allocated towards funding theft costs, flood costs, many other perils and non weather-related events that would not be responded to by the emergency services teams. Again, it is more inequity to our insuring public.

**The Hon. CATHERINE CUSACK:** This is one of the things I am trying to deconstruct. What do we mean when we say "equity". If I live in a high-crime suburb with a massive number of claims for theft, I would be contributing more to the fire levy even though the fire brigade was not servicing my suburb, if I can put it like that. I am hypothesising.

**Ms FORREST:** Yes, that theory is correct, in my view.

**The Hon. LYNDA VOLTZ:** Going back to the levies, they work inversely as well. Those areas with high rates of crime, bushfires and floods would be hit with a higher emergency services levy, would they not?

**Ms FORREST:** The levy is based on our estimated premium.

**The Hon. LYNDA VOLTZ:** You would look at those risks as part of that?

**Ms FORREST:** Yes, we do. We assess those risks as part of the premium that we charge customers. Whatever the levy happens to be at a time when a person's renewal is due, that is the levy that they will pay. For example, our current levy in the market for home prior to 17 September is 17 per cent. If your insurance is due before, you will pay 17 per cent on your home premium but with our modelling we have moved that to 16 per cent as we are looking to ensure that we do not over-collect.

**The Hon. CATHERINE CUSACK:** Who supervises the collection? There is some prudential supervision?

**Ms FORREST:** The ESL Insurance Monitor supervises the over- or under-collection.

**The Hon. CATHERINE CUSACK:** Can you tell us more about that?

**Ms FORREST:** We regularly meet with the ESL monitor to discuss our ESL rates as well as year-on-year price changes we may have going through our portfolios. Both Mr Wedlock and Mr Whelan suggested that there have been year-on-year price increases which have been impacting our customers as well, as that has an exponential factor on the ESL loading that they are paying as our base premiums are increasing. Generally, the process is that we work with Treasury. We pay the invoices—I call them invoices but they are probably not; apologies for my language—as they come in on a quarterly basis. We have to engage an external company to help us try to understand our market share at any point in time. So we take their advice on IAG's market share and we add that to our modelling.

**The Hon. CATHERINE CUSACK:** Why can the Government not tell you up-front how much it is going to be? Clearly they do not tell you because they do not know. I am trying to understand what the Government's calculation is as you understand it?

**Ms FORREST:** I think they wait until the final year is finished and then the statistics are released around where each company has landed in terms of their current market share in New South Wales. From that market share, they will tell us what contribution we are required to fund—

**The Hon. TREVOR KHAN:** In a dollar amount?

**Ms FORREST:** Yes, in a dollar amount, at which point we would look at what we have collected. At that point, we are aware whether we have an under- or an over-collection.

**The Hon. LYNDA VOLTZ:** Would they not know in advance what the forecasts are for expenditure and that you will be hit with 73.7 per cent? Have you ever asked for an explanation?

**Mr BOOTH:** In the budget process, the Government determines the dollar budget figure for emergency services.

**The Hon. CATHERINE CUSACK:** It is how it is carved up that is not known.

**Mr BOOTH:** At the start of the year, we know the total dollar figure, but the distribution of that dollar figure across the insurance companies happens five to six months after the end of that financial year once market share becomes available.

**The Hon. CATHERINE CUSACK:** Because the Government cannot know what that distribution will be?

**Mr BOOTH:** Correct.

**The Hon. CATHERINE CUSACK:** I understand that. As I understand it, two people in identical houses in the same street with two different insurers would almost certainly be paying two different levies?

**Ms FORREST:** Because we make those decisions independently.

**The Hon. CATHERINE CUSACK:** I am not criticising.

**Mr WEDLOCK:** That is correct.

**The Hon. CATHERINE CUSACK:** People want to talk about equity, but there is absolutely no certainty—

**Ms FORREST:** If you are an IAG customer and you insure with us, at different times of the year you potentially would have a different ESL rate. As we understand more about our modelling and perhaps where we think our the market share is going, we move the rates up and down to manage that risk of under- or over-collection.

**The Hon. CATHERINE CUSACK:** I understand that.

**Mr WEDLOCK:** On that point, some insurers, as Ms Forrest said earlier, will rate risk differently. You might have the same suburb but, for whatever reason, one insurer may experience more loss ratio than another one, and, as a result, find that a higher risk area so their base premium may be higher before you even start talking about—

**The Hon. TREVOR KHAN:** The ESL.

**Mr WEDLOCK:** Correct.

**The Hon. LYNDA VOLTZ:** There would be a range of different reasons that the rate would be different on one street. Someone could live in a mansion and someone could live in a shack.

**The Hon. CATHERINE CUSACK:** I am saying two houses next to each other that are identical but because they have two different insurers, it is almost certain they will be paying a different amount, whether it is a few cents or a few dollars. The way the system works there is no certainty.

**Mr WEDLOCK:** That is right.

**The Hon. LYNDA VOLTZ:** Can I go to another question? The Government had an emergency services levy reform steering committee. Was an insurance community representative there or was it completely a government body?

**Mr ANNING:** We were not involved at all in the steering committee.

**Mr WHELAN:** We were not on that.

**Mr BOOTH:** The brokers were not represented on that.

**The Hon. LYNDIA VOLTZ:** So there was no Insurance Council representation?

**Mr ANNING:** No.

**The CHAIR:** Were the brokers or the Insurance Council given any insight as to why the Government suddenly decided to defer the implementation of this new calculation?

**Mr WHELAN:** No, we were not. I, with a number of directors of the Insurance Council board and chief executive officers of insurance, met with the then Treasurer—the now Premier—some months before the final implementation of the reform. It was assured at the time that everything was on track, that we want to make sure that councils were prepared, that the software was ready, and that everything was tracking to time so that we could continue with our efforts to remove the ESL on the dates required. We were assured that time that everything was on track and that there was no intention of reversing that decision. That obviously did not occur. The notification that was given to the industry, not to the Insurance Council, was via the then Treasurer—the new Treasurer—who made individual phone calls to each of the relevant chief executive officers of the insurance industry members and informed them of the Government's decision to defer.

**The Hon. CATHERINE CUSACK:** My question is in relation to the split between commercial and residential, which is designed so that the residential have a lesser burden, from what I can see. Can you tell me if that split has been in place forever or is it a split that can change or has changed over time? How is it regulated?

**Mr WEDLOCK:** I have been involved in the insurance world for 30 years. During that time the domestic fire services levy has always been lower than the commercial fire service levy.

**The Hon. CATHERINE CUSACK:** Has it always been exactly the same or does it move?

**Mr WEDLOCK:** No, fairly similar in my experience. It has always been around that 17 per cent, 19 per cent for domestic and anywhere from 27 per cent to 36 per cent in commercial over that time.

**The Hon. CATHERINE CUSACK:** This is a question that we asked the NSW Treasury witness and they suggested that we ask you. Are there any user charges? For example, the bank's alarm keeps going off repeatedly. Does the bank, at some point, have to pay something?

**Ms FORREST:** No, we do not differentiate our ESL rates based on the experience of the emergency services teams.

**The Hon. CATHERINE CUSACK:** So, six fire trucks arrive, the alarm gets fixed and they go back. Do they send a bill to the bank and the bank then claims the cost of that from you? Is that how that works?

**Ms FORREST:** That is outside of my scope of understanding, but certainly as an insurer we charge the same rate regardless of whether you use the mechanism, the emergency services teams or not. The question that I am interpreting that you are asking—

**The Hon. CATHERINE CUSACK:** Is there any incentive to fix the alarm?

**Ms FORREST:** —is does the emergency services team then send a bill to the insured to, as you say, incentivise them to rectify their problem? Anecdotally I believe that does happen but I could not confirm that. That is something that we would have to ask the—

**The Hon. TREVOR KHAN:** And it is not a claimable component under the policy of insurance?

**Ms FORREST:** No, although I believe the question is actually for the emergency services itself as to whether they charge. It is not something that we would be aware of.

**The Hon. TREVOR KHAN:** Again, is it a claimable component in the policy of insurance?

**Ms FORREST:** We have various policies with various triggers. I would have to take that on notice. Some policies may allow that as an event that would trigger a coverage under the policies but some may not. I could take that on notice.

**The Hon. LYNDIA VOLTZ:** Can I go back to my previous questions to Mr Whelan in regard to the phone calls that were made from the Treasurer at the time the scheme was deferred? In his press release on 30 May 2017 Mr Perrottet said:

[...] in a number of cases identified so far, the lived experience has not matched the intention of the reform for commercial and industrial sectors, particularly for small and medium businesses.

Did he give you indications of what he meant by that when he called?

**Mr WHELAN:** He did not call us; he called the individual companies. So I am not privy to the conversations that they had except that he gave them notice that they were deferring their reform.

**The Hon. LYNDA VOLTZ:** Mr Wedlock or Mr Booth, do know if he give any indication?

**Mr BOOTH:** I received a phone call from the Treasurer. He indicated very little further than what was in the press release. Given the work that our members do with relation to commercial and industrial clients, we offered to assist the Government in any review of the modelling for property levy. That offer still stands.

**The Hon. LYNDA VOLTZ:** Did you write to either the Premier or the Treasurer at the time asking for clarification on the issues?

**Mr BOOTH:** I believe so, yes.

**The Hon. LYNDA VOLTZ:** Did you get a response to that?

**Mr BOOTH:** Nothing more. Nothing of any greater detail than what was in the Treasurer's press release.

**The CHAIR:** Do you have any indications of when this may now proceed?

**Mr BOOTH:** No.

**Mr WHELAN:** No.

**The Hon. LYNDA VOLTZ:** Are you concerned that you wrote asking for an indication of what the problems were and you have not received a response?

**The Hon. TREVOR KHAN:** No, he did not say that. He said he got no more than what was essentially in the media release.

**The CHAIR:** She is asking the question. Is he concerned?

**The Hon. LYNDA VOLTZ:** It is exactly the same thing, Mr Khan.

**The Hon. TREVOR KHAN:** No, it is not.

**Mr BOOTH:** We are keen to assist the Government to determine an appropriate, a fair and an equitable levy to replace the existing insurance levy.

**The CHAIR:** So where you are sitting today, you have no idea at all whether this is going to go ahead again or whether it is dead in the water or if it is going to happen after the election? Does that characterise it properly?

**Mr BOOTH:** We have been given no commitments from the Government one way or the other.

**The Hon. LYNDA VOLTZ:** Have you not written to the Government to ask? The Treasurer specifically said that there are problems in the small and medium business sector. Have you not sought the answer as to what those problems specifically were?

**Mr BOOTH:** There were specific references to commercial and industrial. We asked for information as to what those might be and we have offered our assistance to try to resolve concerns and inequities which might occur. All we can do is offer.

**The Hon. LYNDA VOLTZ:** You received no response to that offer?

**Mr BOOTH:** No. Mr Chair, can I add one quick comment? There were a number of questions to two earlier witnesses about a potential inequity of a property levy, especially for low-income earners, pensioners and so on. I wanted to reference so the Committee was aware. I am reading from the website for the Western Australian property levy. I wanted to make sure the Committee was aware. In Western Australia "pensioners and seniors who receive a rebate on their council rates will receive the same level of rebate on their levy charge". "Pensioners who are eligible to defer their council rates may also defer their ESL charge". Clearly, in Western Australia the Government in the formulation of their property levy for emergency services has taken direct account of the needs of low-income earners, pensioners and so on. It is not a matter for us; it is a matter for the Government to decide a property levy for New South Wales, but I wanted to make sure that the Committee was aware that in other places—

**The Hon. SHAOQUETT MOSELMANE:** Were there any discussions that this would be the case in New South Wales?



**Mr BOOTH:** We did not enter into discussions with Government about the nature and the design of the property levy. Our job was to—

**The Hon. TREVOR KHAN:** Get out of what you currently had.

**Mr BOOTH:** —try to encourage, promote and support the Government's reform away from an insurance levy towards a property levy.

**The Hon. CATHERINE CUSACK:** When you submitted to the Government about the need to get the levy off insurance premiums, did you do any modelling on the increased rate of insurance, the increased take-up of insurance? Did you estimate what would be the reduction in the cost of insurance and, secondly, ancillary to that, what the increased uptake insurance would be?

**Mr WHELAN:** We did do some modelling through Deloitte to work out the impact on the insurance sector, the potential uptake of insurance and also the impact on the New South Wales economy.

**The Hon. CATHERINE CUSACK:** What was the date of that?

**Mr ANNING:** The latest modelling, which we quoted in the submission to the inquiry, was 2015.

**The Hon. CATHERINE CUSACK:** Is that available?

**Mr ANNING:** I believe that it is actually on our website. If it is not, we can make it available.

**The Hon. TREVOR KHAN:** There are no secrets in the exercise.

**Mr ANNING:** No.

**Mr BOOTH:** No.

**Ms FORREST:** Just a point to clarify. There would be no change to an individual person's premium. I think the only thing that we modelled was that we would see an uptake in insurance. We consider pricing of risk very separately to our obligations to fund the ESL. There would be no impact on an individual's personal insurance premium that they pay, except for the reduction in ESL, not a reduction in their base premium.

**The Hon. TREVOR KHAN:** It is a reduction in the ESL and a reduction in the GST?

**Ms FORREST:** Yes.

**Mr WHELAN:** And stamp duty.

**Ms FORREST:** Yes.

**The Hon. CATHERINE CUSACK:** I understand why it is separated but the way the scheme works at the moment is that there is an incentive to mitigate fire risk to reduce the premium which therefore reduces the levy. I realise that your substantial evidence is that it is a very bad idea but by moving from that system to a property tax do you lose that incentive for people to mitigate their fire risk?

**Ms WILSON:** No, I do not believe so. There is still a base premium that is charged by the insurer for that risk.

**The Hon. CATHERINE CUSACK:** It is still priced in?

**Ms WILSON:** Correct.

**The Hon. LYNDA VOLTZ:** We know that 95 per cent of home owners have insurance. What is the rate for commercial insurance?

**Ms FORREST:** I would have to take that on notice.

**Mr WHELAN:** No, we would have to take that on notice.

**The Hon. LYNDA VOLTZ:** Is it about 95 per cent?

**Ms FORREST:** I would not like to guess. I have not seen any model.

**Mr WHELAN:** No.

**The Hon. LYNDA VOLTZ:** Mr Booth, you referred to the pensioner rebate in Western Australia. With 490,000 pensioners in New South Wales and we take the 95 per cent—

**The Hon. TREVOR KHAN:** There are more than 490,000 pensioners in New South Wales.

**The Hon. LYNDA VOLTZ:** I am sorry, pensioner exemptions under the Valuer-General's assessment. Based on 95 per cent of home insurers, and 5 per cent means 160,000, essentially that means that at least 66 per cent of pensioners are paying some kind of insurance. If they were exempted, would that have to be disbursed somewhere else in insurance premiums?

**Mr BOOTH:** My point was quite simply that in the design of the property levy in Western Australia provision was made for pensioners and other people on low incomes and that the design of a property levy for New South Wales—

**The Hon. TREVOR KHAN:** —the same thing can be done.

**Mr BOOTH:** I am sure that the Government would be minded to take a similar approach. Now the ultimate financial impact on pensioners and the financial impact on the State revenue really will depend on the total design of the property levy model.

**The Hon. CATHERINE CUSACK:** Is that a property value-based system? Is there a risk component in it?

**Mr BOOTH:** In Western Australia there is not a risk component. There is a whole table which describes property in different ways for vacant land, domestic land, commercial land and mining leases. As you would expect, it is a reasonably complex property levy design but it takes account the need for equity across those risk capacities to pay or not.

**The Hon. CATHERINE CUSACK:** Equity according to capacity to pay?

**Mr BOOTH:** Yes.

**The Hon. CATHERINE CUSACK:** Not equity according to use of the service—

**Mr BOOTH:** In the Western Australian design there are clearly design elements which reflect a desire to recognise equity in terms of capacity.

**The CHAIR:** Mr Whelan, is it true to characterise your evidence today that the Government has basically stuffed up this whole process?

**Mr WHELAN:** I would not use those terms.

**The CHAIR:** What term would you use?

**Mr WHELAN:** I would just say that it has made a decision that the timing was not right or the circumstances were not conducive to it introducing the reform at that time, that clearly further work needed to be done so that it deferred that reform to a later date when that work, no doubt, will be done. We accept those decisions of Government. We have to work with the rules as they are given to us and we are happy to work with Government to reintroduce what we believe is a very important reform.

**Mr WEDLOCK:** One last comment on the uninsurance component of commercial, what has happened in the past 12 months is the insurance market, with rates in the commercial area in particular, has turned and is increasing because it needs to. When the decision was made by government to review the ESL no-one really forecast what was actually going to happen in the insurance market just on premium increases. Members that are talking to us, and from personally talking to a lot of customers, they are finding the extra ESL charge on top of the fact that their insurance premiums have gone up is making it very tough for them to stay in business. They are either looking at putting people off or they may, in fact, choose to let their insurance go, which is a real concern.

**The Hon. CATHERINE CUSACK:** Is that because the proportion between commercial and residential has changed also? I have looked at the figures provided by Treasury and it says 49 per cent was being picked up by commercial and then 45 per cent by residential. Has that proportion also changed to the ESL within the levies?

**Mr WEDLOCK:** I am sorry, I have misunderstood it.

**The Hon. CATHERINE CUSACK:** Maybe Ms Forrest will take it on notice. There is a sectorial share of insurance based on the emergency service levy. Has that sectorial base changed as well in the past 12 months?

**The Hon. TREVOR KHAN:** Mr Wedlock, you gave evidence earlier that the proportion of the ESL that was paid by residential insured has basically been the same for the 30 years that you have been in the market.

**Mr WEDLOCK:** Correct.

**The Hon. TREVOR KHAN:** Is that still your evidence?

**Mr WEDLOCK:** That is right.

**The Hon. TREVOR KHAN:** So in the last 15 minutes it has not changed?

**Mr WEDLOCK:** No.

**The CHAIR:** The Committee has resolved that answers to questions on notice need to be returned within 21 days. The secretariat will contact you in relation to questions that you have taken on notice.

**(The witnesses withdrew)**

**(Luncheon adjournment)**

**KYLIE YATES**, Acting Chief Executive, Local Government NSW, affirmed and examined

**SHAUN McBRIDE**, Senior Strategy Manager, Local Government NSW, sworn and examined

**ANDREW BUTCHER**, President, NSW Revenue Professionals, affirmed and examined

**LAURENCE McGUINNESS**, Vice President, NSW Revenue Professionals, affirmed and examined

**The CHAIR:** Would you like to make an opening statement?

**Ms YATES:** Local Government NSW is the peak body representing councils and other related entities in New South Wales. Our role in the Fire and Emergency Services Levy [FESL] came into effect largely from March 2016 through until May 2017. We were approached by Treasury, advised that government would be introducing legislation to remove the insurance component of the Emergency Services Levy and that local government would be collecting that revenue on behalf of government. At that time we took the opportunity to be part of a working committee to include council representation to get the best outcome we possibly could for councils and the community when that legislation was implemented.

From local government's point of view, emergency services are critical, obviously for all the community, but local government particularly has a large stake because we fund 11.7 per cent of emergency services budgets. It has been a bone of contention for councils that there is a real lack of transparency around those funding arrangements and how those emergency services budgets are calculated and maintained. Councils really do not like paying that levy on behalf of ratepayers in the way that we have been because we are aware, as government has announced, that it is unfair. We think the current system is deficient in the areas of equity, transparency and accountability. It is a hidden tax. All other agencies are funded via consolidated revenue where there is a great degree of scrutiny and fiscal discipline. The same transparency is not available around emergency services budgets, although we all know they need adequate funding from every part of the community.

We were disappointed that the Fire and Emergency Services Levy did not remove the Emergency Services Levy paid by councils and we were not happy that the Government proposed that councils would be the levy collection agent on behalf of the State Government. Our view was that we wanted to be closely involved in the process to get the best outcome we possibly could. We were part of the working group—which we must say was an excellent example of collaboration between government and the players who would be implementing the reform. It was exemplary in that regard, albeit we had misgivings about some aspects of the policy. These are the next steps. The Committee will have seen from our submission that Local Government NSW supports the introduction of a broad-based property levy that removes not only the insurance component of the levy but also the 11.7 per cent paid by councils so that it is more transparent to all taxpayers.

There are some conditions. We believe that this levy should be collected by Revenue NSW, not by councils, as the Government's revenue collection agency. We also believe a levy should be based on capital improved value as that would be fairer, and obviously it should remove the 11.7 per cent component paid by councils. There are a range of other details we would like included and they are laid out in our submission. I thank the Committee for the opportunity to present today. We look forward to taking questions and we also look forward to working closely with government in the productive and proactive way that we have should it decide to reintroduce the FESL.

**Mr BUTCHER:** I also thank the Committee for the opportunity to speak on behalf of the NSW Revenue Professionals and for the opportunity to present our submission on behalf of that group. The NSW Revenue Professionals is an industry group consisting of revenue practitioners from across New South Wales. It aims to facilitate best practice and training that is consistent for all councils. I am an employee of Campbelltown City Council and I would like it to be noted that my views or what I say here today may not necessarily be the views of my council. This is a separate group to the council. As practitioners, we implement government and council policy through direct dealings with the community. We are uniquely placed at the coalface in hearing the community's concerns.

My colleague Mr McGuinness and I, along with a number of other council representatives, participated in the FESL work group alongside Local Government [LG] NSW. It was a vehicle to collaborate with Treasury on the implementation of the new Act. We believe that the work group was successful and has been touted as an excellent example of intergovernmental engagement and councils working with the State in an informed and well thought out way. Our submission targeted the following items: We believe, along with LG NSW, that capital values should form the basis in calculating both land rates and FESL levies. The New South Wales FESL has strong links to the Victorian model and Victorian councils have used improved or capital values for quite some time. Secondly, I refer to the harmonisation of rating categories. We are getting into a bit of a technical area of

the two pieces of legislation. Local government has four primary categories for rating land and the FESL had nine. We think it would be important to align those two and take the opportunity to do that. The Independent Pricing and Regulatory Tribunal [IPART] review into rating commented on the current limitations of the existing system, and harmonising represents a great opportunity.

Thirdly, I refer to the cost in duplicating council data required by Revenue NSW. The FESL is in common terms to council as a rate type, which is the method of rating. The structure of the rating for the FESL is exactly the same as that which is commonly used in councils today. It would be easy for us to separate restricting the income that we receive as FESL income, reconciling that information, submitting for audit to the audit office—the Committee is probably aware that the Audit Office is responsible for auditing all New South Wales councils now—and remitting payment to Revenue NSW. We believe we would be able to do that, engaging with government further at a fraction of the cost of the proposed system.

Fourthly, in order for Revenue NSW to make sure that councils were acting in their best interests a burdensome regime of reporting was established. We had not got to the detail of that at the time that the FESL was deferred but we could see in the establishment of our computer systems and changes that were being brought about that that was going to be at a very high level and the requirement was down to a transactional level. We considered that to be excessive and to have some possible future implications on private and personal information protection.

The last point is, as Ms Yates said, the 11.7 per cent. We pushed through the work group to have that 11.7 per cent rolled up into the one rate collection, so rather than councils making a separate 11.7 per cent contribution towards the costs, all of those costs should be rolled up into the one levy if it were going to be councils that were collecting it. Local Government NSW, the Office of Local Government, fellow council officers and the Valuer General are all involved in the work group. We worked very well together, and that is something that we are quite proud of.

**The Hon. LYNDIA VOLTZ:** Mr Butcher, why does the Government not just collect the money?

**Mr BUTCHER:** That is the position of Local Government NSW. If the government policy was to collect it via Revenue NSW then that would be fine.

**The Hon. LYNDIA VOLTZ:** There is no reason why the Government could not, is there?

**Mr BUTCHER:** No.

**Mr McGUINNESS:** That is the method that is used in South Australia currently.

**The Hon. LYNDIA VOLTZ:** For this Committee, can you confirm that there is no reason that you can foresee why the government could not just do this.

**Mr McGUINNESS:** No, there is no reason.

**The Hon. LYNDIA VOLTZ:** Were you talking about being a member of the emergency services levy reform steering committee?

**Mr BUTCHER:** No, we were in a work group that was a level below that.

**The Hon. LYNDIA VOLTZ:** Who were the members of that committee?

**Mr BUTCHER:** The work group consisted of Local Government NSW, the Office of Local Government, NSW Revenue Professionals, the Valuer General and Revenue NSW.

**The Hon. LYNDIA VOLTZ:** Did you produce a report that went to the steering committee?

**Mr BUTCHER:** No, we did not.

**The Hon. LYNDIA VOLTZ:** How did you interact with the steering committee?

**Mr BUTCHER:** Through Treasury—we left Treasury out of that group.

**The Hon. LYNDIA VOLTZ:** I assume all your meetings were minuted.

**Mr BUTCHER:** Yes.

**The Hon. LYNDIA VOLTZ:** Were those minutes referred to the steering committee?

**Mr BUTCHER:** I believe so, yes.

**The Hon. CATHERINE CUSACK:** Would you say that was a successful model?

**Mr BUTCHER:** It has been described by Treasury, the Valuer General and the Office of Local Government as being a very successful collaboration. Maybe the outcome was not successful, but the collaboration between the government agencies was touted as being that.

**Mr McGUINNESS:** Certainly, we were given a fair hearing for our views and they were considered fairly. In many cases, recommendations that we made were adopted.

**The Hon. LYNDA VOLTZ:** Given the success of the working group, were you surprised when, on 30 May, the Treasurer and the Premier put out a press release stating that some people, particularly in the commercial and industrial sectors, are worse off by too much under the current model?

**Mr BUTCHER:** Yes, we were surprised that it was deferred due to those reasons. We were not privy to the entire dataset, so each council was working independently. It had not got to the point, in a lot of councils, that they were able to load the rates to multiply them out by the values that each council has to know what the outcome was going to be. We were within weeks of getting to that stage—or even days, I think—before it was withdrawn.

**Mr McBRIDE:** Yes, days.

**The Hon. LYNDA VOLTZ:** Are you saying you will within days of having the complete dataset?

**Mr BUTCHER:** We had the valuation information and we had only just been released the rates and then there is just the calculation method. A council could extract that data independently, multiply the rates and calculate what it would be to determine who was going to be a winner or a loser in their area, but most councils had not got to that point.

**The Hon. LYNDA VOLTZ:** Do you think that if the system had been in place for a couple more weeks you would have resolved those issues?

**Mr BUTCHER:** No, those issues would have been highlighted through members of the community receiving their rate notices with the FESL on it.

**The Hon. LYNDA VOLTZ:** Are those problems intrinsic in the system?

**Mr BUTCHER:** Correct.

**The Hon. LYNDA VOLTZ:** Has the working group met since the FESL was deferred?

**Mr McGUINNESS:** We did have one meeting, probably towards mid-June. The purpose of that meeting was to determine any issues that we would have undoing the FESL.

**The Hon. LYNDA VOLTZ:** Who attended that meeting?

**Mr McGUINNESS:** The same members of the full working committee.

**The Hon. LYNDA VOLTZ:** Where was that meeting held?

**Ms YATES:** Local Government NSW offices.

**The Hon. LYNDA VOLTZ:** Is that where the working group always met?

**Ms YATES:** Yes.

**Mr McGUINNESS:** Yes, on most occasions; occasionally we meet at NSW Treasury.

**The Hon. LYNDA VOLTZ:** Was Treasury also at that meeting?

**Mr McGUINNESS:** Yes.

**The Hon. LYNDA VOLTZ:** Did you provide a report to government based on that meeting about the mechanism for undoing the FESL?

**Mr McGUINNESS:** We did not, but I do not know what Treasury did as a result of that meeting.

**Ms YATES:** Treasury obviously has its own mechanisms to report back, because our key objective after that meeting was that councils were not out of pocket for unwinding the FESL that they had implemented. The Treasury representative secured an agreement that councils would not be left out of pocket.

**The Hon. LYNDA VOLTZ:** Were councils compensated to unwind?

**Mr McBRIDE:** Yes.

**The Hon. LYNDA VOLTZ:** Do you know the total of that?

**Ms YATES:** No, we do not know.

**The Hon. LYNDA VOLTZ:** Going forward, you have suggested a BBPL. What is that?

**Mr McBRIDE:** It is a broad-based property levy.

**The Hon. LYNDA VOLTZ:** Would that be more equitable?

**Mr McBRIDE:** Basically, the broad-based property levy is just another term for FESL. We as an organisation have been advocating for a broad-based property levy to replace the current emergency services levies on insurance policies and local government. We have been advocating for that for over 15 years, and it is our firm policy position for the reasons that were stated earlier about equity, transparency and accountability. We appeared before a Public Accounts Committee inquiry in 2004 looking into the merits of replacing the Emergency Services Levy with a broad-based property levy. The broad-based property levy is just terminology.

**The Hon. LYNDA VOLTZ:** Do you argue that that should be on the improved value of land?

**Mr McBRIDE:** That is correct.

**The Hon. LYNDA VOLTZ:** Would that be replicating the Victorian model essentially?

**Mr McBRIDE:** Yes, it would be very close to the Victorian model.

**The Hon. LYNDA VOLTZ:** Have you put that view to government?

**Mr McBRIDE:** We have put it to government on multiple occasions over the past 15 or so years, as I said.

**The Hon. LYNDA VOLTZ:** Have you met with the Treasurer, the Premier or anyone in government since the meeting on 18 June to ascertain the Government's position? We heard from the Insurance Council of Australia that the clear indication from the Treasurer was that the scheme was only deferred, not cancelled.

**Mr McBRIDE:** That is what we were told.

**The Hon. LYNDA VOLTZ:** Yet you have been compensated to unwind the system.

**The Hon. TREVOR KHAN:** They had to be.

**Mr McBRIDE:** Yes, we were successful in getting the compensation because, as Mr Butcher said, it was only days before the new system was to be implemented and it had to be turned off all of a sudden. That meant we had to unwind everything, so notices did not get out. We had to change the software and all of the operational matters that go with shutting down something.

**The Hon. LYNDA VOLTZ:** Were you given an initial amount to implement it when it was announced that you would be administering the scheme?

**Mr McGUINNESS:** We were given options. There were two options that councils were given for funding. One was a formula-based option, based on a certain calculation method or an actual method, so councils could submit their actual costs to the Government and they would be reimbursed for that, or to simplify matters councils would be paid to set sum on estimates.

**The Hon. LYNDA VOLTZ:** Did any of the councils receive that set sum?

**Mr McGUINNESS:** Yes.

**The Hon. LYNDA VOLTZ:** If the deferred model was reintroduced, would you expect the set sums or the ability to let the Government know your costs to be reintroduced?

**Mr McBRIDE:** I would expect we would have that option.

**The Hon. SHAOQUETT MOSELMANE:** I have a couple of questions for Ms Yates. You have indicated that as the local government representative you would have preferred that Revenue NSW collect the money. Obviously, the decision was made that local governments would. What argument was presented to you against Revenue NSW collecting the money?

**Ms YATES:** At the time we were told that by wrapping the 11.7 per cent that councils paid into the FESL would diminish the savings experienced across insurance premiums. That was the key reason we were given.

**The Hon. TREVOR KHAN:** I am not being rude, but I do not think that was the question that you were asked. The question asked was: Were any reasons advanced to you as to why Revenue NSW wanted councils to collect, not Revenue NSW?

**Mr McBRIDE:** At that point in time, councils had a ready-made system for rate collection and Revenue NSW thought it would be cheaper and more economical to use the existing system and tack the new one onto it. That was the argument that Revenue NSW was pushing at the time.

**The Hon. TREVOR KHAN:** That was rather than having to, in a sense, create a new system?

**Mr McBRIDE:** Create it itself although, given that it already collects land tax and things like that, it would not have been that hard for it to set it up.

**The Hon. TREVOR KHAN:** Except that it does not collect land tax off every land holder in New South Wales, whereas you do collect rates off every land holder in New South Wales.

**The Hon. LYNDA VOLTZ:** It would be good if we could finish answering our own questions—

**The Hon. TREVOR KHAN:** Don't worry, Lynda. The suggestion has been made by the Chair that we could intervene—

**The Hon. LYNDA VOLTZ:** Point of order—

**The CHAIR:** Order!

**The Hon. SHAOQUETT MOSELMANE:** Mr McBride, you can proceed.

**Mr McBRIDE:** That was the primary reason that was given to us at the time. Things have changed a little at Revenue NSW since then and it appears that it is gearing up to offer to collect rates for councils. As it moves to more of a commercial footing, it could be that if it came around again it might decide to build the capacity and collect it itself next time around.

**The Hon. SHAOQUETT MOSELMANE:** Do you have any expectation that the FESL will be reintroduced in some form or another now that you have been compensated for some of the work you have done?

**Mr McBRIDE:** I think we will see something like the FESL remerge, maybe at a more opportune time in the political cycle. Now that New South Wales is the only State that does not have a property-based funding system for its emergency services, there may be pressure on for tax reform or whatever argument the Federal Government might chose to apply for New South Wales to follow suit and adopt what the Treasury boffins would consider to be a more equitable and efficient form of taxation to fund emergency services.

**The Hon. TREVOR KHAN:** But it is not only Treasury boffins, is it? You think there is a more efficient way of collecting the levy?

**Mr McBRIDE:** That is correct.

**The Hon. TREVOR KHAN:** That is the submission you have made to governments of both political persuasions?

**Mr McBRIDE:** Yes, we have been arguing this consistently for many years to governments of both persuasions.

**The Hon. TREVOR KHAN:** It is not to relieve you of a burden; it is because the current system is broken?

**Mr McBRIDE:** That is what we perceive it to be, yes.

**The Hon. SHAOQUETT MOSELMANE:** Ms Yates, I have one follow-up question. During your introduction you said you had some misgivings over some aspects of the policy. Can you elaborate on the misgivings you have indicated?

**Ms YATES:** They are the ones that we have mentioned before. The first one was that it did not also abolish the Emergency Services Levy paid by local government; it only replaced the Emergency Services Levy paid on insurance premiums. In our view, that was only half done. The second misgiving was that local governments—councils—across New South Wales were collecting the tax. We did not think that was an appropriate form of tax collection. We have other suggestions about how councils think it could be more equitable in capital improved value; for example, whether you have caps and the particular model that could be used.

**The Hon. SHAOQUETT MOSELMANE:** If you were the collecting agency, as you would have been under the FESL, would you have been required to employ more staff to respond to queries from constituents about the additional amounts to be paid and so forth?

**Ms YATES:** Our concern from day one was that it would be an extra burden on councils that would take them away from providing the services they already provide to their communities and that communities pay



for through rates. Very early on it was certainly the role of Local Government NSW to negotiate with Treasury to ensure that councils would not be unduly burdened or out of pocket. That is why we came up with two models and Treasury agreed to them and kept to them the whole way through so that as long as councils could provide evidence of any additional resourcing they needed to get the scheme up and running before 1 July, any costs that councils incurred, according to a certain cost heads agreements, would be reimbursed by Treasury.

**The Hon. TREVOR KHAN:** I am not having a shot at you when I ask this question, but when you talk about building the council's contribution—if we call it that—into the Emergency Services Levy in the FESL, what would happen to the money that council was not then going to pay?

**Mr McBRIDE:** It would be returned to the community in the form of expenditure on infrastructure and services. As you are probably aware, most councils carry infrastructure renewal backlogs and so on, so it would be returned to the community in that way.

**The Hon. TREVOR KHAN:** I assumed that was the case. In essence, that would mean—and, again, it is not a shot—there would be no reduction in rates but an increase in the levy of the 11 per cent, or whatever councils are paying?

**Ms YATES:** I think that would depend on each council. We know that particularly for rural and regional councils, 24 per cent of their income each year is diverted to the Emergency Services Levy in a direct cost shift. As you know, councils have their rates capped and in many areas it is difficult for communities to accept higher rates in any case. However government chose to raise that revenue, that it now goes holus-bolus to emergency services would mean it would still be ploughed back into the local community in roads, parks and other things or reduced rates. That would be a matter for the council.

**The Hon. TREVOR KHAN:** I get it. You talked about some of those other things and I think at least some of you have been here for the earlier evidence today. By going to an improved capital value, it will have a different impact in different areas. I think that has been well ventilated and I think those are arguments you would also adopt. We do not have to go through all of that. You talked about caps in your summary. What is that a reference to?

**Mr McBRIDE:** Caps were a potential design feature of a revised system. Caps were just a way of removing the outliers so we do not have some properties paying one extreme at the high level and others paying an extreme at the low level. It just sort of brings it more to an average. It takes the edges off, so to speak.

**The Hon. TREVOR KHAN:** Were there any other design features that you felt needed to be built into it?

**Mr McBRIDE:** I think they were referred to.

**The Hon. TREVOR KHAN:** I think they might have been.

**Mr McBRIDE:** Yes, it was the CIV, concessions for pensioners and low-income earners and the use of a base amount plus ad valorem components. It was the potential application of minimum and maximum levies to avoid extreme outliers. We would have limited exemptions. It would apply to all private property. Properties would or could be classified to reflect type and risk and we would suggest there be consideration of the use of zones aligned with service availability or service expectation with collection by Revenue NSW. We put those up as potential design parameters that could help achieve a more equitable and agreeable outcome. That is basically why we put those forward.

We note that in Queensland, for example, their model is different in that it is not so much based on property value as type but it is still a property based tax and it has a heavy overlay of service expectation. If you are a long way from emergency services and emergency services would not arrive for over an hour or two hours you pay a hell of a lot less than you do if you live in an urban area, so it has got a risk overlay. Victoria we know has a country and metro zone application. Queensland also has a zonal overlay on top of the risk overlay. There are different ways of doing it. While introduction of a new taxation like the FESL is politically difficult and ultimately involves winners and losers and is very difficult to bring about, we note that each of the other mainland States has managed to do so over the past 10 to 20 years.

**The Hon. TREVOR KHAN:** Do you know whether the other States collect directly or use their councils as their collection mechanism?

**Mr McBRIDE:** South Australia collects directly from State government, their equivalent of Revenue NSW does the collection there. Local government at the time refused to collect the levy there. They did not want to be a tax agent for the State government, I think the argument went at the time.

**The Hon. TREVOR KHAN:** I can understand that. What about Victoria?

**Mr McGuinness:** All States other than South Australia are collected by the councils as an agent and they then forward the money on to the State government.

**The Hon. Trevor Khan:** I understood the design was going to be that the FESL is specifically identified as a levy to be collected for the State government so that you try to avoid some of the political opprobrium of collecting it, which I gather was one of the issues that councils were reflecting on in this.

**Mr McBride:** Yes, that was certainly one of the things we did insist upon and it was agreed that the levy and levy notices would be explicitly recognised as a State government impost. That was very important to local government. We were suspicious that the levy was going to be implemented through local government under the guise of rates. We wanted to make sure it was clear that it was not introduced by local government and it is not our money; that it belonged to the State. They did agree to that. One of the positive outcomes of the working group we were involved with was that we were able to negotiate that.

**The Hon. Catherine Cusack:** When you talk about exemptions, what sorts of exemptions would you see?

**Mr McBride:** I see very few. In the list I read out, basically all private property would not be subject to total exemptions, government lands and that would be exempt for other reasons as was proposed under the FESL.

**The Hon. Catherine Cusack:** What about church property?

**Mr McBride:** No, not really because church property and church schools and things like that are already insured so they would in theory have been saving money on their insurance premiums, which would have offset their FESL payment. Basically it was all insured properties would be captured, in our view.

**Ms Yates:** In our view, not as was proposed.

**Mr McGuinness:** What Mr Butcher's and my organisation were strongly in favour of with exemptions was that there be some alignment or harmonisation with the rating exemptions. We found there may be great difficulty where a property was potentially exempt from rates but subject to the FESL. Part of our submission is saying in the Independent Pricing and Regulatory Tribunal [IPART] inquiry into rating, which was handed to the Government I think in December 2016, the recommendations there were to severely limit the rate exemptions that currently exist in the Local Government Act. Again that would provide greater clarity and certainty so people knew exactly where they stood. If they are exempt from rates the chances are they are exempt from the FESL, but we were winding back so that pretty much everybody was not exempt from rates and not exempt from the FESL, except for government properties.

**The Hon. Catherine Cusack:** What do you think about the zonal system that is in place in Queensland that would see more at-risk areas that are greater consumers of emergency services potentially have a higher levy?

**Mr McGuinness:** The only thing I would say on that is Mr Butcher and I have had dealings with councils in Queensland and it is very complicated from their perspective and difficult to administer. We go to some of their conferences and they have representatives from the State government who levy the charge and there is usually total confusion about certain issues that come up all the time there. It may have merit morally and that sort of thing, but from a practical point of view it is difficult to administer.

**The Hon. Catherine Cusack:** Do you agree that some councils do a better job than others in mitigating disaster risk?

**Mr Butcher:** That is a difficult question.

**Mr McGuinness:** We are probably not the right people from the council to say.

**The Hon. Catherine Cusack:** It is just that sometimes you see fire in the same place over and over again and you think, "I wonder why the council approved that in the first place." I know my council will say no if there is a flood risk, another council might say yes, but the levy is all the same. There does not seem to be any recognition of good practice.

**Mr Butcher:** Probably Mr McGuinness is right; we are probably not the right people to answer that question.

**Ms Yates:** I do not think we have explored that in terms of this or we were looking more broadly at it in terms of risk as the emergency services would—

**The Hon. CATHERINE CUSACK:** It is dealt with as revenue, but I am just wondering whether you would see any drivers in risk mitigation in the policy for revenue collection.

**Ms YATES:** I think that would just be a bit out of our expertise in this context. I am sorry, I cannot answer that.

**The Hon. TREVOR KHAN:** In the Government's submission reference is made to a number of commissions and reviews that have been undertaken. Has local government made submissions to, for instance, the HIH inquiry in regard to this matter?

**Mr McBRIDE:** That was a long time ago.

**The Hon. TREVOR KHAN:** In fact it was 2003.

**Mr McBRIDE:** We have referred to it in our submissions on this subject but quoting from the Victorian royal commission's quoting of the HIH review. I cannot recall if we made a submission to the HIH inquiry back in 2003.

**The Hon. TREVOR KHAN:** But you clearly did to the Public Accounts Committee in 2004.

**Mr McBRIDE:** We certainly did to the Public Accounts Committee in 2004, yes.

**The Hon. TREVOR KHAN:** And they essentially rejected your submission, I take it, in short order.

**Mr McBRIDE:** Yes, they did; however, they did acknowledge as an option B that a broad based property levy would be—they gave some credit to that whilst still sticking with option A, being the current system, maintaining the status quo.

**The Hon. TREVOR KHAN:** Would you be able to check whether you made a submission to the IPART review of 2008?

**Mr McBRIDE:** Yes. I could take that on notice.

**The Hon. TREVOR KHAN:** If so, would you be able to provide us with a copy of that submission?

**Mr McBRIDE:** If we did one, certainly. What was the inquiry called?

**The Hon. TREVOR KHAN:** All I have is the Independent Pricing and Regulatory Tribunal Review of State Taxation of 2008.

**Mr McBRIDE:** I do not know that one off the top of my head. I will take that question on notice.

**The Hon. TREVOR KHAN:** The only other one is the Henry tax review of 2010. If you made a submission in 2008, you may have just changed the cover and submitted it again to the Henry review. You have already given evidence about engaging with government. However, I am interested to know whether these reviews were being informed by your submissions as well and, if so, what were the submissions?

**Mr McBRIDE:** I would have to check. We might have approached the Henry review through our national body. That was a broad review of taxation. Councils deal with only one form of taxation, which is council rates. That is the only tax we have the opportunity to raise.

**The Hon. TREVOR KHAN:** I accept that it might be a long bow, but I am interested in the development. It is not meant as a criticism if you did not do it; I am simply interested in how far this has gone.

**The CHAIR:** Thank you very much for appearing before the Committee today.

**(The witnesses withdrew)**

**KEN MIDDLETON**, President, NSW Rural Fire Service, sworn and examined

**BRIAN McDONOUGH**, Vice President, NSW Rural Fire Service, affirmed and examined

**TREVOR ANDERSON**, Acting Chief Executive Officer, NSW Rural Fire Service, sworn and examined

**The CHAIR:** Would you like to make an opening statement?

**Mr MIDDLETON:** When the Rural Fire Service Association [RFSA] first heard of the change proposed by the Government to the method of collection of funds—which became known as the Fire and Emergency Services Levy [FESL]—we commissioned Deloitte to work out the financial implications for the Rural Fire Service [RFS]. We believed that the system we had was providing sufficient funds for the service to conduct its business and that there could be a risk in implementing any other funding model. Deloitte had some key findings and came to the following conclusions. Any change to the current RFS funding arrangements should take into account the potential loss at State and Federal Government level of related stamp duty and GST collected by the insurance industry that would have to be recovered through other means.

In addition, a change in arrangements would potentially impact not only RFS funding but also the NSW Fire and Rescue and the State Emergency Service. The annual increase in RFS costs and the Rural Fire Fighting Fund in order to meet the requirements of volunteer rural fire brigades has historically exceeded rate peg limits and impacted councils' ability to provide the same quality and amount of other services. There should be a recognition of the totality of the current costs and sources of funds so as to ensure that adequate levels of funding are secured in the future, and any proposed changes must not inadvertently increase the overall impost on any of the contributors, fundraising at the local level and the voluntary support provided to brigades by the community, local government and the RFSA.

The current RFS budget and allocation should be reviewed in order to improve the councils' ability to accurately forecast RFS costs and to estimate local rates and charges accordingly. In particular, better transparency and earlier visibility of volunteer and statewide support costs to councils and timing for instalment notices should be achieved. In addition, an extended budget and allocation process in combination with historical increased costs results in difficulties for councils in forecasting their statutory contribution.

The last two points have been addressed by the service. At the time—in 2017—we had received an assurance from the service that the Government had taken a number of factors into account, and we withdrew most of our objections to it changing the system on the basis that it had assured the service it could provide adequate funding. After that, the Premier chose to change the system after complaints were made by landholders. We were happy that that situation prevailed because we had always been satisfied that the previous scheme was working.

**The Hon. LYNDA VOLTZ:** The Insurance Council said earlier today that it had been contacted by the Treasurer at about the time of the notice to defer. He made it clear that it was not a cancellation; that is, the Government was only deferring the scheme. Have you had any approaches from the Government or have you attempted to ascertain from the Government whether it is a deferral or a cancellation?

**Mr MIDDLETON:** As far as we are concerned, the Government initially announced that it was a deferral. However, the issue has not been raised again; we have not had an indication from the Government that it will reintroduce it. A number of difficulties were found at the time, especially when talking to small business owners and people severely impacted. The whole purpose of this ostensibly was to make it fairer for everyone. According to our study, 95 per cent of households had some form of building insurance, but only 65 per cent had contents insurance. Whether the insurance was adequate or for the full value of the home is in question because when people are now asked to replace a home they find it is very expensive in fire-prone areas. They have to comply with certain government regulations. We do not pretend to know how best to do that; that is for the Government to determine. In answer to your question, we have not been approached and we have not pushed the point.

**The Hon. LYNDA VOLTZ:** If the Government has only deferred the scheme, other evidence presented today by the revenue professionals indicates there is no reason that the State Government could not collect the levy rather than it being a component of insurance premiums or council rates.

**Mr MIDDLETON:** Our concerns were alleviated by the fact that the Government guaranteed the funding. We had a letter of comfort to the commissioner from the Government saying that they understood the increase in funding, they understood the rate pegging issue. They were saying we would suffer no diminution of funding. From the funding the RFS has received from government, Fire and Rescue and SES it appears that they are very keen to make sure that we are well funded. I do not have an apprehension about that.

**Mr ANDERSON:** To elaborate on that, from our perspective our main concern was the funding level for the RFS, not so much the manner in which it was collected. If the State Government decided tomorrow that it was going to be the collection agency I do not think that would present a problem to us as long as the assurances that were given to us when this matter was brought before Parliament some time ago are maintained.

**The Hon. LYNDIA VOLTZ:** Your concerns around things such as fundraising were not to do with the impact of it coming into the rates.

**Mr MIDDLETON:** We did have a concern. As you know, local communities give to their local fire brigades and they are very generous, especially when there have been large fires around, and they give to us through our scheme. We were concerned that if people were getting a big bill that they were seeing that said, "This is for the fire services," they would then say, "Well, we have already given." There was some evidence that that was the case. So yes it would impact on us but really we cannot dictate to the Government what they will do in that respect. They would just lose some funding which they would have to make up in other ways.

**The Hon. LYNDIA VOLTZ:** You raised the impact on small and medium businesses in particular. Can you give some examples of why that was such an issue when the new scheme was introduced?

**Mr MIDDLETON:** The ones that I saw, and I am only talking off the top of my head, include one where a businessman was living above a premises and they were insuring one as a house and the other as a business premises, and the business rate was very high. There were many stories in the newspapers at the time but it seemed that the increases were 10 to 12 times their previous contribution. May I also point out that it was never the intention of government that insurance companies levy the individual policies; it was just to come from their consolidated revenue. It was the choice of insurance companies to nominate on people's individual policies how much they were paying but to my knowledge they never accounted to government for how much they collected.

**The Hon. LYNDIA VOLTZ:** Our understanding is that the Government would give them a figure and that they would be expected to pay it, and what they were doing was trying to anticipate what the levy was and building it into the insurance premiums. That is perhaps why we have seen that the commercial rates are so different. The example we got from IAG was 1 per cent for a vehicle, 16 per cent for a household and 32 per cent for commercial.

**Mr MIDDLETON:** That was an area we raised about motor vehicles because the RFS attends a number of motor vehicle accidents. We felt that for the householders to be paying for everything on their property insurance meant the motor vehicle people were not being impacted as much when they were contributing to a lot of our costs.

**The CHAIR:** In 2012 you got Deloitte Touche Tohmatsu to do that study for you, as you mentioned, and it came down on the side of saying that it wanted to leave things as they are. You then sought assurances from the Government that you would maintain your level of funding in future.

**Mr MIDDLETON:** That is absolutely correct.

**The CHAIR:** And it has said that you will. Is it true to say that your position now is that you do not really care how the Government does it?

**Mr MIDDLETON:** We are not averse to the Government changing it. As far as we are concerned if the Government has guaranteed it and they have given written guarantees—we had a number of meetings with Treasury—to us we would not have a position opposing a system where they are guaranteeing we will get the funding.

**The CHAIR:** Okay.

**Mr ANDERSON:** And I think that was confirmed to us in writing by the Treasurer at the time. Also when the bill was debated there were statements made about our role in this process by Mr Gallacher reinforcing the commitment given by the Government to ensure that the funding level for the RFS would not be detrimentally affected.

**The Hon. TREVOR KHAN:** I think it is pretty well bipartisan, is it not?

**The Hon. LYNDIA VOLTZ:** No-one is proposing to reduce your funding.

**Mr ANDERSON:** And that was our main concern. As I said earlier, the method by which it is collected is an important issue but to us as an association it is the end users that we do not want to see detrimentally affected.

**The Hon. LYNDIA VOLTZ:** How do you resolve that conflict that it will then go onto properties as opposed to motor vehicles?

**Mr MIDDLETON:** That is for the Government to resolve. It is not for us to resolve the issue. We just brought it to their attention. As you know, in government you have to address these matters. If you were in government, you would have to do the same thing.

**The Hon. LYNDA VOLTZ:** Did they express a view on why it would be?

**Mr MIDDLETON:** No.

**The Hon. LYNDA VOLTZ:** What proportion would you say of responses do you make in motor vehicle accidents?

**Mr MIDDLETON:** I would not wish to hazard a guess.

**The Hon. LYNDA VOLTZ:** Take it on notice if you would like.

**Mr MIDDLETON:** We will take that on notice because there are clear figures now since the Keelty report. There is a lot of documentation going in about the number of calls and where they are going, so there should be clear information which we will obtain from the service.

**Mr ANDERSON:** I have got the information if you would like it now.

**The Hon. LYNDA VOLTZ:** That would be great. Thanks, Mr Anderson.

**Mr ANDERSON:** In the annual report for the RFS for 2016-17—and I will table this—they attended 8,288 bush and grass fires and building fires and 4,599 motor vehicle accidents. So it is over half.

**The Hon. LYNDA VOLTZ:** A third of the total.

**Mr MIDDLETON:** A third of the total.

**The Hon. TREVOR KHAN:** Would there be any difference in the time commitment—I was going to say "quality"—involved in attending a motor vehicle accident compared to other fires? I am not belittling the figures.

**Mr McDONOUGH:** No. It is a difficult question to answer. Some fires will run for weeks. Others will run for half an hour. It is really hard. I do not know whether those statistics would be available.

**Mr ANDERSON:** I can table the figures from the annual report. They are for a four-year period, not for one year.

**The Hon. LYNDA VOLTZ:** That is okay. That would be great. Thank you.

**Mr ANDERSON:** With the insurance, the point we were raising as an association was that under the old scheme when the insurance industry declared their premium income subject to the contribution they only had to declare 80 per cent of household policies but only 2 per cent of motor vehicle policies. So their premium income tabled was only those percentages. Our view is if motor vehicle accidents are occupying the time of our people higher than 2 per cent, which it is, then maybe they should look at those percentages again if the Government is going down that path.

**The Hon. TREVOR KHAN:** The Emergency Services Levy covers more than the RFS. It also covers the State Emergency Service, for instance. Their figures will include a whole bucketload of motor vehicle attendances and others that would not be covered by property insurance.

**Mr ANDERSON:** Correct.

**The CHAIR:** As there are no more questions, thank you very much, gentlemen, for coming. I do not think you took any questions on notice.

**The Hon. TREVOR KHAN:** It has been great.

**Mr MIDDLETON:** Thank you.

**The Hon. LYNDA VOLTZ:** And just hand the tabled document to the secretariat.

**(The witnesses withdrew)**

**MATTHEW SAUNDERS**, Rates Coordinator, Penrith City Council, affirmed and examined:

**The CHAIR:** Welcome. Mr Saunders would you like to make a brief opening statement?

**Mr SAUNDERS:** Yes. I am the Rates Coordinator for Penrith City Council and I am also an executive member of the NSW Revenue Professionals who made a presentation earlier. I was the coordinator for the FESL implementation project at Penrith City Council and in November 2017 I submitted a response to this inquiry on behalf of the council. Our council did not object in principle to the introduction of this levy, however, we did have some misgivings in relation to a number of issues. First, the amount of time to implement the changes in hindsight was not sufficient. Even despite a lot of resources being put in by councils, Treasury and the software providers that we use, by the time the levy was almost to come to fruition the major software providers still had not finalised testing of the computer systems and councils were still in the dark as to some of the reporting requirements to NSW Revenue. Secondly, the revaluation that was done to align base dates for all New South Wales councils for the FESL resulted in additional rate increases for most of our rural ratepayers and, even though the FESL did not continue, our rural ratepayers have been stuck with three years of additional rate increases that in our opinion were unnecessary.

Thirdly, but still on the topic of our rural ratepayers, the use of unimproved land values for the calculation of the levy we feel was not fair as well because the high levy they would have paid was not appropriate for their current insurance risk when compared to similar three-bedroom or four-bedroom properties in the urban areas, particularly because they had a higher land value. We do not think the insurance risk was taken into account in just the use of the land values. Fourthly, I would like to point out the differences between the levy exemptions for the FESL, or lack thereof, compared to the levy exemptions for council rates. Councils are required to exempt numerous owners from rates despite the occupiers still using council resources. The exemptions under this new State policy were different to the principles applied to exemptions for councils, which are subsidised by local ratepayers. So whilst we agree with the organisations that were not exempt from the FESL, we are perplexed as to why the State Government feels that these organisations should be exempt from contributing to local services. That is probably an argument for a different arena—namely, the review of the Local Government Act rating components—but I thought it was necessary to point out nonetheless.

We had some difficulty in implementing property classifications. Essentially we use four rating categories to categorise properties—namely, residential, farmland, business and mining. There were nine classifications that we had to do for the FESL and we then had to sort them further into vacant properties as well, which was hard in some cases. The difficulties we had was between commercial and industrial land—for rates we only have to determine whether they are business or residential. With the commercial and industrial we had to go out sometimes and we had to look through windows or do Google searches or try to ascertain what they were, which for council rates is not something we have to do—we just have to differentiate whether it is residential or business. So there were some practicality implications of classifying, which was more difficult than what we have to go through with council rates. As mentioned by the NSW Revenue Professionals and Local Government NSW, the council 11.7 per cent contribution that we provide or councils provide was still to be hidden within the council rates. We think it would have been more transparent to take that out of council rates and add it in with the levy as well. So whilst we do not object to the levy being reintroduced, there is still a lot of work that needs to be done to make it more practical for councils to implement if it is to be a fairer system than was sold during the FESL. Thank you for giving me the opportunity today.

**The Hon. LYNDIA VOLTZ:** Was Penrith Council provided with a set sum or did you let the Government know how much it cost for you to implement the FESL scheme in order to get reimbursed?

**Mr SAUNDERS:** We just took the formula-based method. We did not want to spend more time writing down everything we were doing, so we just took the maximum amount that was given.

**The Hon. LYNDIA VOLTZ:** And that was a set sum?

**Mr SAUNDERS:** That was a set sum. It was capped for our council because it was capped at a certain number of properties. So because we are above that then we got the same as a council that might have had 20,000 less properties but because we were all above the cap we got the same amount. There was a level where they set that out.

**The Hon. LYNDIA VOLTZ:** When you took the set sum did you realise you would have to physically go and check the properties to differentiate between commercial and industrial?

**Mr SAUNDERS:** Yes, because that was the first level of funding. Part of that funding was that we would have to classify the properties by a certain time and we had to guarantee that we would provide those

classifications as part of the condition of getting those advanced funds. So that was basically the only thing at that time we knew that we had to do—

**The Hon. LYNDA VOLTZ:** Was to ascertain the difference?

**Mr SAUNDERS:** Yes.

**The Hon. LYNDA VOLTZ:** The rural properties had been recently reviewed as to what their rates for the next three years were going to be?

**Mr SAUNDERS:** We got a base date revaluation on 1 July 2015 and those values were supposed to be used for three years before we were due to get a new valuation, but when they aligned the valuations we had to get another one in the next year. Normally you have got three years and property peaks and troughs during those three years but generally by the next three years it has kind of evened out a little. There are always winners and losers—some people's rates go up and some people's rates go down. So we already had that the year before and our ratepayers were geared to having similar rate increases of a few per cent on top of that for the next three years. In some cases they got that two years in a row.

**The Hon. LYNDA VOLTZ:** What were the large differentiations you found? Some of your figures were between 9 per cent and 18 per cent for the pegging, were they not?

**Mr SAUNDERS:** Yes, in rates. For our rural people we are talking between \$200 and \$2,000 extra they were paying if we did not have the revaluation; now they are paying \$2,000 more. That is at the extreme of some of our rural areas—near where the airport is supposed to be. So those people have seen dramatic increases in their revaluations but these increases would not be realised until a few years down the track when we would be due to get another valuation. In this case their additional rates have been brought forward but only because of that valuation.

**The Hon. LYNDA VOLTZ:** So what were some of the larger differences you were seeing from one year to the next—I assume you are talking about the Badgerys Creek end of the electorate?

**Mr SAUNDERS:** Yes and rural. So as the rural land closer to the city is being developed in like The Hills area. There is less and less rural property available and that is driving up the prices. So even in the 12 months since our last revaluation they saw average increases in our rural areas of around \$200,000 in a 12-month period and compared to other areas that was a dramatic increase in values. Owners are blaming us now. We have spent the past two years trying to justify or not justify rate increases all due to a valuation that was not done or was not necessary in the end.

**The Hon. LYNDA VOLTZ:** They do not have the averaging out over the three-year period where you will get that natural—

**Mr SAUNDERS:** No.

**The Hon. LYNDA VOLTZ:** So if you have the peak of the market and then the market bottoms out a bit you are not going to get it?

**Mr SAUNDERS:** Yes, whereas if it was revalued this year, when it would have been due, the market might have softened down a bit and they might not have experienced these greater rate increases.

**The Hon. TREVOR KHAN:** But you are talking about a fairly exceptional circumstance in Badgerys Creek properties?

**Mr SAUNDERS:** Yes. We are talking rural properties on the northern outskirts as well that are away from the airport, but obviously as the rural properties are taken up and converted to housing in the Sydney metro area there are less and less acreages available.

**The Hon. LYNDA VOLTZ:** The value of any greenfield site on the edge of the city or even country towns is changing significantly?

**Mr SAUNDERS:** That is right.

**The Hon. LYNDA VOLTZ:** In commercial and industrial, is that the way the Valuer General values land when he is doing consideration for valuations or does he do it as business and residential as well?

**Mr SAUNDERS:** I am not certain. They do best use according to its use. So if the zoning permits certain uses it is valued as if it is developed to its best use.

**The Hon. LYNDA VOLTZ:** The Valuer General does land value only?

**Mr SAUNDERS:** Yes. But it is best use.



**The Hon. LYNDA VOLTZ:** He is looking at whether land is industrial or commercial when he is doing that valuing?

**Mr SAUNDERS:** Yes, he is looking at what the zones permit to be built in those areas and if it is built and developed then he works out the land value based on that.

**The Hon. LYNDA VOLTZ:** If the State Government were to decide that it would collect the FESL instead of local government it would have that information sitting in the Valuer General's department already?

**Mr SAUNDERS:** Yes. When we get values they divide it up into all those zones, so I presume they do have that information handy.

**The Hon. LYNDA VOLTZ:** Is there anything else you would like to add? The rural costings were probably the most important part. We have had evidence from Local Government NSW, so much of what you are saying has been covered by them already.

**Mr SAUNDERS:** Yes. The rural issue is what my council wanted me to bring up, which is different to some of the other submissions.

**The Hon. LYNDA VOLTZ:** That is the first time we have heard that evidence.

**The CHAIR:** Mr Saunders, thank you for coming today.

**(The witness withdrew)**

**(The Committee adjourned at 15:02)**