REPORT ON PROCEEDINGS BEFORE

PORTFOLIO COMMITTEE NO. 4 – LEGAL AFFAIRS

FIRE AND EMERGENCY SERVICES LEVY

CORRECTED

At Macquarie Room, Parliament House, Sydney on Monday 20 August 2018

The Committee met at 9:30 am

PRESENT

The Hon. Robert Borsak (Chair)

The Hon. Lou Amato
The Hon. David Clarke
The Hon. Catherine Cusack
The Hon. Shaoquett Moselmane
Mr David Shoebridge
The Hon. Lynda Voltz

The CHAIR: Welcome to Portfolio Committee No 4–Legal Affairs and its inquiry into fire and emergency services levy. This 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 alternative models for ensuring that fire and emergency services are fully funded in a fair and equitable manner. 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 second of two hearings we plan to hold in this inquiry. We will hear from Cowra Council, the Combined Pensioners and Superannuants Association of New South Wales, the Volunteer Fire Fighters Association, the Fire Brigade Employees Union, the NSW Farmers Association and the Emergency Services Levy Insurance Monitor.

Before we commence I would like to make some brief comments about the procedures for today's hearing. Today's hearing is open to the public and is being broadcast live on 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 say outside of their evidence at the hearing. I urge witnesses to be careful about any comments they may make to the media or to others after they complete their evidence as such comments would not be protected by parliamentary privilege if another person decides to take an action for defamation. The guidelines for the broadcast of proceedings are available from the secretariat.

There may be some questions that witnesses could only answer if they had more time or with 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 both Committee members and witnesses to speak into the microphone, and in your case, Mr West, into your phone. In addition, several seats have been reserved near loudspeakers for persons in the public gallery who have hearing difficulties. Could everyone turn their mobile phones to silent for the duration of the hearing.

BILL WEST, Mayor of Cowra Shire Council and member of the Executive of Central NSW Councils, CENTROC], before the Committee via teleconference, affirmed and examined:

The CHAIR: Do you want to make an opening statement?

Mr WEST: Yes. Thank you for the opportunity to make some comments to your inquiry. The submission that was provided by Cowra Shire Council in November 2017 is still one that we strongly hold the opinion and support. I also draw the Committee's attention to the CENTROC submission which provides information going back as far as 2012. The emergency services levy in Victoria in 2013 was established as a result of a royal commission into its fires and this council has been strongly of the opinion for some considerable time that there needs to be a fairer, more equitable, less onerous and more open and transparent method of raising funds for the Rural Fire Service and other emergency services.

The Hon. SHAOQUETT MOSELMANE: On page 3 of your submission you say that council was made aware through anecdotal comments that some residents thought that the Fire and Emergency Services Levy [FESL] was to be a substitute for the personal home and contents insurance. Was the council not consulted when FESL was proposed?

Mr WEST: We were of the opinion—and obviously the process was going to be—that the insurance levy would no longer be continued under the new levy system but there was minimal consultation with council in regard to the implementation and methodology around arriving at how the levy might be applied and what it might look like. We were certainly not in a position to provide detailed information. Some of the information sessions we had were less than informative and some were by teleconference which were very scratchy.

The Hon. SHAOQUETT MOSELMANE: Did you indicate to the Government that you did not have sufficient information to distribute to the constituency for them to understand, let alone the council?

Mr WEST: We made that comment public, but I think our comment was that that was a government matter and we had to provide your Committee with the information we had in retrospect, I guess. As chair of CENTROC, I did raise that matter with the Minister directly.

The Hon. SHAOQUETT MOSELMANE: With regard to your risk-based component, you say that while there are different types of emergencies, bushfire services should be factored in according to risk frequency, particularly in those areas that are subject to fires and that require a large commitment of human resources. Will you elaborate on that?

Mr WEST: I think that there was a conversation around the opportunity to look at some sort of zoning where there were residential buildings in high fire risk areas, which required a lot of maintenance, as opposed to some of the areas in more rural and regional areas where that risk was not quite as great. I think the concern we had was that on a total budget projection, then we were being asked to, in effect, probably subsidise unfairly those high-risk areas that were attracting a vast amount of the expenditure.

The Hon. SHAOQUETT MOSELMANE: Were those comments of yours taken on board by the Government?

Mr WEST: I think that part of the reason—our submission would indicate that we felt that, with respect to the Rural Fire Service, some of those comments were not taken on board the way we might have liked them to have been. I am not suggesting that the Government should bow to our whims at all. But I think that the whole funding and long-term planning and budgetary process around the Rural Fire Service at that time was causing us some concern. That was based, of course, on the fact that we had some late and mid-year financial adjustments being imposed upon us as a result of the Rural Fire Service's demand for a greater finance contribution.

The Hon. LYNDA VOLTZ: The original scheme was introduced, in part, as a levy on councils, a contribution from the State Government, and then a levy on the insurance providers themselves. It was the insurance providers that decided to levy their policies to recoup the amount that the Government charged. Part of the problem appears to be that the way the insurance industry charged its clients meant that in some instances, particularly in the commercial area—and I understand there is a problem with farms—the rates would be different from the straight-out levy that is now being proposed by the Government. Have you looked at the differences between how the scheme was originally implemented and how it is now being applied?

Mr WEST: I think that the way it is being applied now, I will be honest, I am a little uncertain of. Originally, of course, yes, it was moneys levied on insured properties—properties being the broader context, not just farmland—bearing in mind that some people were underinsured, that some people were insured offshore and that some people were not insured at all. So the insurance collection levy did not capture the entire community. The other issue that we had with some of the insurance raising of revenue was that we were unable to find any mechanisms whereby there was some accountability for the amount of levy that had been collected by the insurance companies. Maybe that information is available to your inquiry, but we were not able to find out how much money was collected under the insurance policy scheme and how much money was being transferred back to the Government to cover the Rural Fire Service expenditure needs.

The Hon. LYNDA VOLTZ: Essentially, 160,000 people do not have house insurance of any kind.

Mr WEST: Yes.

The Hon. LYNDA VOLTZ: Given that 490,000 pensioners in New South Wales are homeowners, it is a reasonably small proportion and probably greatly filled by that sector. That was the concern we expressed: that pensioners in particular would be hit by this levy. Have you had any feedback in regard to who is not insured in your area?

Mr WEST: The general consensus in our area was that a broad-based property tax was a more equitable way of going about it—whether you wanted to, like general rates, put in for some concessions for pensioners, I take your point—some methodology of reducing the burden on them. But I think the other point that is considered is the issue of providing emergency services. Whether the Government picks up the tab in a greater way, the way it does with police and ambulance, is a point that would need to be considered in setting a levy. So whether the Government was going to provide a greater contribution and the levy was to be for a lesser percentage would be something the Government would need to be wrestling with in the methodology.

The Hon. LYNDA VOLTZ: Did the Government give you any explanation why it could not collect this levy itself, given that it holds the information at the Land Titles Office?

Mr WEST: In one very short term, no. Did we ask? Yes. I think the Cowra local government had indicated that reluctantly we would accept the collection agency component, providing there were some compensations—a fee for service, if you like—so the councils were not expected to have another cost shift against them and, secondly, that any rate notice or any notices clearly indicated that it was not a local government rate—it was for a State government emergency services levy.

The Hon. LYNDA VOLTZ: How much was that fee for service that was included? Did the Government set a rate?

Mr WEST: I will have to take it on notice. I know we did get paid some money or compensation for establishing or starting to put together the base, if you like, of information required. But what the ongoing fee for service was, I cannot tell you; I am sorry.

The Hon. LYNDA VOLTZ: You can take this question on notice as well. Was it always the intention that there would be an ongoing administration charge?

Mr WEST: There was always an understanding that there would be some administration charge, which local government would be able to place either directly on the Government or as part of collecting the fee in some form or other, yes.

The Hon. LYNDA VOLTZ: When you unwound the system, did the Government compensate your council for that as well? There was evidence that some financial compensation was provided to unwind the system.

Mr WEST: I am aware that we got paid some compensation or we got paid compensation for the collection of the data that we had already undertaken. I am of the understanding that there was no financial disadvantage to council with the unwinding because of those payments.

The Hon. SHAOQUETT MOSELMANE: You say in your submission that the rates levy only takes place in July each year—

Mr WEST: Yes.

The Hon. SHAOQUETT MOSELMANE: —and to alter that process would require significant additional resources. Can you elaborate on what sort of significant additional resources you are talking about?

Mr WEST: I would probably take that on notice. I think, as the previous question had raised the issue, that information is available to the State Government as well, and on rate notices. And then to go down the path of establishing a new database was going to be costly. But I will have to take that on notice.

The Hon. DAVID CLARKE: In the council's submission it states:

> The system was seen as unfair in that those properties that were not insured could and were still provided with emergency services when needed, but the uninsured owners were not contributing to those services.

The council still adheres to that view, does it not?

Mr WEST: Yes. That is not to suggest that those who are uninsured ought not be entitled to the support and benefit that those services provide.

The Hon. DAVID CLARKE: I understand that. But you would see that that was a fundamental flaw in the system?

Mr WEST: Very much a fundamental flaw in the system. The other fundamental flaw we saw in the system was that we believed there was little transparency over the methodology of creating the budgets, and we were having situations where we were getting an expectation placed upon us that we would be providing increased contributions towards the end of our financial year, which obviously had budgetary impacts on us.

The CHAIR: Any further questions? I think that is it.

Mr WEST: Thank you.

The CHAIR: Thank you, Mr West. I note that you took a question on notice.

The Hon. SHAOQUETT MOSELMANE: A number of them—three.

The CHAIR: A number of them. Please note that you have 21 days to respond to questions on notice. The secretariat will be in contact with you to clarify the nature of those questions. Thank you very much for talking to us today.

Mr WEST: I was going to say that my question was that someone will contact us in regard to the nature of those questions and any information provided to you.

The CHAIR: Yes, that is it. Thank you very much.

(The witness withdrew)

PAUL VERSTEEGE, Policy Coordinator, Combined Pensioners and Superannuants Association of NSW, affirmed and examined

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

Mr VERSTEEGE: Thank you for inviting the Combined Pensioners and Superannuants Association of NSW [CPSA] to this inquiry. The public outcry that followed the announcement of the detail of the fire and emergency service levy [FESL] was the result of changing the basis of the levy from value of improvements on the land to the value of unimproved land. The levy as it was, and as it is at present, is a levy on insurance companies. How the insurance companies pass on the levy to their policyholders is not transparent, although it seems to be common practice for home and content policies to provide an estimate of how much of the annual premium is earmarked for paying the overall levy on the company and it appears those estimates vary according to value insured, which is roughly equivalent to or approximates the value of improvements. Obviously the value of improvements is not as starkly related to location as is the value of unimproved land. As a result, the current emergency services levy [ESL] per capita shows a flatter graph than the fire and emergency services levy based on the value that unimproved land would have. The redistribution of the levy meant it skyrocketed for some people and plummeted for others, and those for whom it skyrocketed won the day and the FESL was stillborn.

From a social equity point of view unimproved land value is a poor tax base, not just for the FESL, because of city- and seaboard-based cash-poor owner-occupier households. These households bought before gentrification of their areas and to tax them as if they gentrified along with their area is a mistake. This is CPSA's main concern: A disconcerting number of government agencies—State and Federal—assume that the cash-poor, asset-rich have options of converting the wealth in the family home into ready cash. These options by and large do not exist. As to the ESL and the FESL, CPSA is at a loss to understand why emergency ambulance services are funded on a user-pays basis, with exemptions for vulnerable groups, and why emergency fire and rescue services are funded using individual asset base in levy calculations. Fire and emergency services can and should be funded in a similar way to ambulances. That concludes my opening statement.

The Hon. LYNDA VOLTZ: Figures provided to the Committee show that currently 160,000 people are uninsured and 490,000 pensioners are landowners across the State. Has the CPSA looked at those 160,000 people who are uninsured, which is the basis of the Government wanting to change the system?

Mr VERSTEEGE: The short answer is no. We did not have that information available to us. We had information, which dates back quite a while, that showed that 6 per cent of property owners were uninsured—a relatively small number. We have not looked at what impacts it would have to exempt every pensioner in the State that is an owner-occupier from paying this levy. Obviously there would be a significant cost but I also point out that it is possible to means test within the pensioner group. Obviously there are pensioners who are quite wealthy and there are pensioners who are doing it tough. If a mechanism can be found to means test within the group that would be fair and acceptable to us.

The Hon. LYNDA VOLTZ: We started with a levy that was not really a levy; it was a charge to the insurance companies that then decided to levy across portfolios.

Mr VERSTEEGE: Yes.

The Hon. LYNDA VOLTZ: We have now gone to a system where local councils administer on unimproved land values and once we start factoring in pensioner levies and improved values it becomes quite a complex mix. Is there a simplified measure to achieve the Government's aim that the CPSA has looked at as an alternative?

Mr VERSTEEGE: The CPSA, as I have mentioned, is in favour of introducing a user-pays charge on fire and emergency services, just like the charge for emergency ambulance services. It seems odd to have two different approaches to funding the emergency response when certainly the ambulance one is working very well. It was our initial position that the emergency service levy from a practical point of view need not change because there had been an inquiry during Labor's tenure in government that looked at the same issue and it concluded that the cost benefits did not stack up in changing it from one system to another. We are quite happy to keep it the way it is but if it is going to change we do not think that levying it on the basis of unimproved land value is a good idea.

The Hon. LYNDA VOLTZ: We can assume of the 160,000 people who are uninsured that a large proportion are going to be pensioners who cannot afford insurance. Would you agree that the way the system is currently structured is probably the most fair and equitable way?

Mr VERSTEEGE: I do not really have an opinion on that. It would be good if every pensioner who lived in an owner-occupied dwelling could be insured. It is obviously a huge risk, especially if—

The Hon. LYNDA VOLTZ: I am sorry. You will have to wait. The member opposite is having some technical difficulties.

Mr VERSTEEGE: That is okay. Where was I?

The Hon. LYNDA VOLTZ: We were talking about pensioners and equity.

Mr VERSTEEGE: It would be good if we could pull in the very last pensioner as well, have them insured and be able to pay an insurance levy. There is also a group, which is becoming larger, of over fifties who basically have to wait until they turn pension age, when they can go off Newstart. I would suggest that group would be proportionally hugely uninsured if they owned their own dwelling. So if we could split up the 160,000 people you mentioned that would be great.

The Hon. LYNDA VOLTZ: Has the CPSA ever sought or does it have access to the figures? Has the Government ever provided it with the figures of just how much of the emergency service is funded as a proportion of the budget from this levy?

Mr VERSTEEGE: I cannot recall being specifically informed about that, no.

The Hon. SHAOQUETT MOSELMANE: Thank you very much for coming in, Mr Versteege. A key point in your submission was you say with regard to the FESL that it will cause economic and emotional hardship. Can you elaborate a bit on that? Have poor pensioners come to you and expressed how they will suffer potentially if the FESL was introduced?

Mr VERSTEEGE: Yes, at the time that the FESL was about to start we got quite a few phone calls from very upset people, from children who realised that their parents, in many cases their mother, a widow, would not be able to afford that. We also got calls from pensioners—not so many—who are quite pleased because they live rurally and their insurance premiums were set to be reduced as a result of the FESL. Obviously, we are interested in an equitable solution across our constituency, which is pensioners and people over 50, and it was quite obvious that Sydney-based pensioners were going to pay a lot more and it was unaffordable to them.

The Hon. SHAOQUETT MOSELMANE: We heard from previous witnesses about the equity of this proposed FESL, but in reality for particularly the poor pensioners that you spoke about earlier who could not afford the insurance, under FESL they would not only have to pay the insurance but on top of that pay the levy. So effectively it makes it even tougher on those poorer constituents to meet those requirements. Is that not the case?

Mr VERSTEEGE: Yes, that is right. There is a pure insurance component to the policies and on top of that under the new system that has not been totally ruled out yet there would be an additional charge which is quite unrelated to insurance. Presumably the insurance premiums will go down a bit, but if you offset those figures I think they will be paying significantly more.

The Hon. SHAOQUETT MOSELMANE: Why do you think the government wanted to shift the contributions of the process off the insurance companies and onto local government and others to collect the levy?

Mr VERSTEEGE: I have not really speculated on that. We have simply seen the effect and we are also concerned that this is more of an ideologically driven thing where the Government is in favour of broadening land taxing its citizens to raise revenue. It is, from purely a taxation point of view, a very efficient way of doing it, but I think the human cost of doing it can be quite significant.

The CHAIR: Do you have an idea of the number of pensioners in New South Wales that are not covered by insurance at this time?

Mr VERSTEEGE: I could not put a number to it; I have just heard 160,000 all over the State are uninsured. There are about 350,000 pensioners in New South Wales.

The CHAIR: Of that 160,000 do you think it is a reasonable proposition that if they were to be hit with a base levy of, say, $100 they would then somehow or other miraculously be able to afford insurance?

Mr VERSTEEGE: I do not think so, no.

The CHAIR: I think the insurance industry was saying that it was expecting around about a $60 average reduction in insurance premiums.

Mr VERSTEEGE: I do not think a lot of people would inquire whether it was now affordable. This is the scenario that you have to picture: You have a couple, they retire, they move through retirement, typically the husband dies first, the widow stays in the house, on the death of her husband the household income has dropped 40 per cent, savings need to be made and they will be made. Then after a while there are big repairs for which money has to be saved up and more and more falls by the wayside. By the time it gets to the insurance policy and to simply give up insuring your house and contents, the mindset is such that this lady would not be checking out policies and the price of insurance policies continuously. So I think it is a bit of a long bow for the insurance companies to say the premiums go down so people can insure.

The CHAIR: What you are saying is one will not be replaced by the other. If you cannot afford insurance at the start of this exercise and you are then hit with a levy, you certainly will not be able to afford insurance after this exercise if you are a pensioner.

Mr VERSTEEGE: No, that is right. That is why we have argued that if you want to change the system of raising funds for emergency services and you want to do away with the current system, you should move to a user-pays system where an exemption or a rebate can be applied, as it is for ambulance services. It is a bit weird that a pensioner can call an ambulance and not be charged, but if the fire services come and there is an FESL, they have already paid for that. It is a strange way of doing it.

The CHAIR: Do you think there might be some room for a government-led scheme to be put in place?

Mr VERSTEEGE: It would always be a government-led scheme, obviously. The Government could take its cue from the way it funds its ambulances. Ambulances simply bill people that use their services and those people are insured, and ambulance insurance is quite cheap. I imagine it would not be all that expensive for fire and other rescue services either, and that would be a good way. Give an exemption to pensioners. If there are too many pensioners and it has become expensive, means test within the group.

The Hon. CATHERINE CUSACK: Earlier you were asked why you thought the Government went in this direction. Do you have no idea why the Government did it? There was information released at the time.

Mr VERSTEEGE: The Government cited the argument that some people do not pay. That is an equity argument: everybody should pay.

The Hon. CATHERINE CUSACK: Do you recall that the Government said the price of insurance would fall if it was spread across a larger base?

Mr VERSTEEGE: Yes, I recall all those things.

The Hon. CATHERINE CUSACK: And that was an equity argument?

Mr VERSTEEGE: Yes, it was an equity argument, but in advocacy you go a step further and think about what might be further motivation for doing this. We have had the Henry review, which had a series of recommendations which related to land tax, the efficiency of land tax, and that, I think, has been taken up by the Government as well. As to the equity argument that the Government ran, that is quite a popular one, even within CPSA membership. People do not like having to pay and cross-subsidise other people who do not pay. The position we took in the lead-up to a change before the FESL was born was that if you are not going to introduce an exemption or anything like that for pensioners or for very vulnerable people it is really not worth your while changing the system. I refer to the inquiry into the FESL as it was under the Labor Government, and it found there was really no benefit in terms of costs and revenues to do that.

The Hon. CATHERINE CUSACK: In your submission you specifically cite certain people who are asset rich and income poor.

Mr VERSTEEGE: That is right.

The Hon. CATHERINE CUSACK: The value of their property has significantly risen. However, you also oppose the concept of reverse mortgages. You seem to be portraying them as victims of a big increase in their wealth and saying that for some reason it would be wrong for them to be able to assign some of the tax requirements to that. Do you understand what I am saying.

Mr VERSTEEGE: I understand the argument, of course. But what you are not considering is that the practical options of getting money out of your property are very limited. A reverse mortgage typically will not yield more than 25 per cent of the value of the property. That is all that will become available to fund your retirement. Once you have done that, you are stuck in that house. You might have to go into a nursing home later. We are saying that once you start tapping into someone's home equity, you reduce their housing security. That is in a country where if you do not have a house things become very dire. We refer to the retirement income funding system as the "three-pillars" system with the pension, savings and superannuation. Saul Eslake, the economist, very aptly said that it really is a four-pillars system, with owner-occupied housing as the fourth pillar.

The Hon. CATHERINE CUSACK: I think it is wonderful that the properties of these pensioners have increased so massively in value.

The CHAIR: Don't we all?

The Hon. CATHERINE CUSACK: However, in the cost of protecting buildings and emergency services, there are ways that can be found for them to meet those costs. It seems fair that if you are benefiting from a rising property market you should meet some of those costs.

Mr VERSTEEGE: I do not think they are benefiting from a rising property market.

The Hon. CATHERINE CUSACK: We have just discussed how they are. Their asset has become more valuable.

Mr VERSTEEGE: I do not regard that as a benefit.

The Hon. CATHERINE CUSACK: It is if they have to go into nursing homes and have that wealth pass on to their children. I will move on.

Mr VERSTEEGE: I would like to answer because you asked me a question. The benefit does not arise until it crystallises. In some cases there is a way of doing that and a lot of people use that system. There would be many people in your electorate who have move into residential parks—in effect, home parks. They have downsized and freed up equity and they pay their own bills. That is wonderful. But I do not think you should make policy settings such that everyone would be forced either to move into a residential park and to take out a reverse mortgage at onerous interest rates or to find some other way of freeing up equity in their home. I do not think that is fair.

The Hon. CATHERINE CUSACK: In regard to the statistics you have given us, 6 per cent of retiree households have no building insurance. That would suggest 94 per cent do. In addition, 13 per cent, which is below average, have no contents insurance, which suggests that 87 per cent of retiree households do have contents insurance. It seems to me that bringing down the cost of insurance for 94 per cent of retirees and bringing down the cost of contents insurance for 87 per cent of retirees would be beneficial to those people.

Mr VERSTEEGE: It would. But if you are going to put a load on the 6 per cent and the 13 per cent—but mainly the 6 per cent—we do not think that is worth it.

The Hon. CATHERINE CUSACK: But there are ways that can be assigned to the property value without forcing people to sell their home.

Mr VERSTEEGE: I do not know; you tell me. The FESL is certainly not structured that way.

The Hon. CATHERINE CUSACK: Do you support reducing the cost of insurance for 94 per cent of retirees who own their own home?

Mr VERSTEEGE: CPSA is in favour of reducing costs to households across the board, and that includes insurance. However, we are not a supporter of the FESL.

The Hon. CATHERINE CUSACK: How would you reduce the cost of insurance for all those households?

Mr VERSTEEGE: I do not know. It is not a specific area of responsibility for CPSA to suggest ways in which the insurance companies could be made more efficient.

The Hon. CATHERINE CUSACK: But the Government's policy is to try to reduce the cost of insurance for all households, including pensioners and retirees. Part of the role of this inquiry is to look at an equitable way to do that. If you are saying we should continue to allow people to have cover but not to pay for it—just make it voluntary—what is the alternative to reducing the cost of the insurance for most of your members, which will affect their quality of life?

Mr VERSTEEGE: If you consider taking the notional part of insurance policy premiums off the part that pays for emergency services, that would bring down insurance premiums. It is debatable whether it really brings down the insurance premium as such, because it is taking off something that is a tax paid to government. I say again, an alternative is to introduce funding in the way that emergency ambulances are funded. That is, it becomes a user-pays charge, and you identify the vulnerable groups that cannot afford to pay and you give them an exemption. In the process, you would have reduced insurance premiums, although I doubt that just removing the current levy from the premium would make the insurance companies more efficient.

The Hon. CATHERINE CUSACK: When you say a "user-pays charge", do you mean that the property owner pays the charge when the fire brigade attends his or her property?

Mr VERSTEEGE: In essence, yes. I realise that is a simple way of putting it, because emergencies can be complex. But there must be a way of working it out. Ambulances attending emergencies is also complex and they seem to be able to work it out.

The Hon. SHAOQUETT MOSELMANE: What about when there is a false alarm and the fire brigade attends a home owned by a pensioner who is uninsured?

Mr VERSTEEGE: Under an ambulance funding system?

The Hon. SHAOQUETT MOSELMANE: Yes.

Mr VERSTEEGE: Vulnerable pensioners would have an exemption. If they were not a vulnerable pensioner and could pay, they would take out insurance. Most people now have ambulance cover under their private health policy. There is no reason not to take out insurance to pay for fire services.

The Hon. SHAOQUETT MOSELMANE: I refer to the third paragraph on page 4 of your submission, which states:

> The benefit to insured property owners would most likely be erased by higher collection costs.

Are you saying that even if the FESL were introduced, the benefits would be erased by the cost of collecting it?

Mr VERSTEEGE: I was referring to and quoting the inquiry that was held a number of years ago into emergency services funding which concluded that changing the system would have no discernible cost benefit. I cannot do the comparison for ambulance-type funding, it is simply an idea at this point, it is not a worked-up proposal.

The Hon. LOU AMATO: What extra cost has been incurred by pensioners from the old to the new system?

Mr VERSTEEGE: Is the question moving from ESL to FESL?

The Hon. LOU AMATO: Yes.

Mr VERSTEEGE: It is hard to say. Property values have gone up so much and in such a diverse way, but Sydney-based pensioners almost to a person would have seen huge increases because the unimproved value of the land has gone up so much. I cannot quantify it.

The Hon. LYNDA VOLTZ: Going to the values of the land, the report you cite, which is entitled "The Non-insured: Who, Why and Trends into non-insurance" by Dr Richard Tooth and Dr George Barker, notes that a household's financial position including the savings, outstanding debts and income are closely related to the non-insurance. It is not the property value itself; it is the income which means they are non-insured. Would that be the case?

Mr VERSTEEGE: That is right. It is very attractive for government agencies that need to find sources of funding to look at bare numbers of wealth in term of assets but as I said before unless you have a way of crystallising the value of an asset into cash it is not much use. It is the income that counts and it is the income that policymakers should take into account.

The Hon. LYNDA VOLTZ: Of those without contents insurance 67 per cent of them are renters. Bringing contents insurance into the mix is probably a poor example because it is the renters that are not being taken into consideration, is it not?

Mr VERSTEEGE: The renters are usually not taken into consideration.

The Hon. LYNDA VOLTZ: But they are the bulk of the people who do not have contents insurance?

Mr VERSTEEGE: Yes. But, of course, the inquiry is home insurance. Contents can always be replaced.

The Hon. LYNDA VOLTZ: I understand. Those without home insurance represent a very low figure—5 per cent to 6 per cent?

Mr VERSTEEGE: Yes.

The Hon. LYNDA VOLTZ: It is a small number of people who do not have household insurance?

Mr VERSTEEGE: Yes.

(The witness withdrew)

MICHAEL HOLTON, President, Volunteer Fire Fighters Association, sworn and examined

BRIAN WILLIAMS, Vice President, Volunteer Fire Fighters Association, sworn and examined

The CHAIR: I mention that Mr Holton is the endorsed candidate for the Shooters, Fishers and Farmers Party for the seat of Monaro.

Mr HOLTON: With the permission of the Chair I would like to make the background section of our submission our opening statement. It clearly states what we are about.

The CHAIR: Do you want to read it onto *Hansard* or table it?

Mr HOLTON: I will table it, as it gives us more time for discussion.

The CHAIR: We will go straight to questions.

The Hon. SHAOQUETT MOSELMANE: We did not receive the submission.

The CHAIR: It was received on Friday.

The Hon. CATHERINE CUSACK: Has it been accepted?

The CHAIR: Yes. It was accepted this morning. Do you want to read it onto *Hansard*?

Mr HOLTON: I can but I did not want to use up time.

The CHAIR: We will go to questions.

Mr HOLTON: I think It is more valuable to have questions and discussion surrounding the areas of concern for us. I will give you a summary but I will line those up with the terms of reference, if that is all right? A quick summary of where we stand. The first of the terms is the policy process and financial modelling underlying the provisions of the Fire and Emergency Services Levy Act 2017.

The key points I would like to make about that particular statement is that the VFFA continues to support a broad-based property levy. We feel, in principle, it is a fairer system and we are happy to expand on any of these points. The next point is that we are concerned that the financial modelling is why it is currently flawed. We strongly urge the New South Wales Government to review the financial modelling of that Act. We would like to see the Fire and Emergency Services Levy Act amended to reflect a fairer and more sustainable financial modelling. They are the four key points for the first area.

The next one is the policy and financial implications of all stakeholders of repealing this Act. We make two statements about that. The first one is that the VFFA would rather see the Act amended rather than repealed. If repealed, the VFFA would like to see a new Act created to support a fairer broad-based property levy system. The last point we wanted to address is alternative models for ensuring that the fire emergency services are fully funded in a fair and equitable manner. To explain it very simply, anyone who runs a business or a farm would agree that there are two ways of balancing the books—you either earn more income or you reduce your expenditure. That is the area that we want to focus on. We believe that the expenditure of emergency services has skyrocketed and has got out of control. We believe it is a valid area of debate for the upper House to look at this as being directly connected to the reason you are having this inquiry now.

To put it into perspective, if I focus on the RFS, the Rural Fire Service—as a multi-firefighting association we concentrate our efforts into that area—in the past 10 years, the Rural Fire Service funding has skyrocketed from $168 million per annum to $372 million. We have seen an increase of $204 million in 10 years. That frightens us a lot. We are seeing an increase in frequency and intensity of wildfires. The service will tell everyone that this is as a result of climate change. We are not saying that climate change is not occurring, but we believe it is wrong to blame climate change for this increase in frequency and intensity of wildfires. If we focus on the issue of wildfires as one example when it comes to funding our emergency services, these big fires come at a cost. The bigger the fire the more costly it is to manage that fire, or the money that seems to be thrown at it.

Firefighting has become big business. That is an area that the Volunteer Fire Fighters Association is also concerned about. We look at many areas, including aviation and other specialised areas that are coming at a great cost to taxpayers. We have recently heard about people having to foot the bill for these huge expenses, and we believe the solution is staring right at us. Deloittes did a report, which has these two circles. I have only one page from the report. These two circles indicate a pre-disaster spend and a post-disaster spend. Deloittes stated in its report—and I can supply the original documentation.

The CHAIR: Can you table that, Mr Holton?

Mr HOLTON: I can. I have printed only one page, but I can give you the full report. The full report can be handed up. Those ratios are very important. Deloittes stated in its full report that by offsetting some of our spend in mitigation, we can reduce the reactive side of delivering emergency services. I am pretty certain that everyone here in this Chamber—do you call this a Chamber?—would agree that ideally what we want is to have world-class emergency services, but never need them. We really want fire trucks sitting in sheds and never rolling. That is the ideal word, but of course we know that does not happen. If we can reduce the amount of times they are required to be reactive, that is the smart way of doing business.

When we look at firefighting, the thing that really stands out in the research and work we have done, particularly with Indigenous land management people, we have seen that managing the bush, which is where a lot of these big fires come from, can be done on a shoestring budget by comparison. If we look at these millions, it costs us all $372 million to run the Rural Fire Service. The land management aspect of that, if we take a leaf out of Indigenous land management practices, that can be done on a shoestring budget. The proof is in the pudding. Just last week was it, Mr Williams?

Mr WILLIAMS: Yes, Wednesday just gone.

Mr HOLTON: Mr Williams has taken four photographs that I would like to table. This one shows the intensity of a fire happening a week ago. The second one shows damage to the environment, which is evidence in areas that were not treated. The third one shows how small the fire was when it ran into a previously treated area that was treated within two years.

The Hon. LOU AMATO: You are suggesting that if you had more controlled burning—

Mr HOLTON: Yes, and I will expand on that.

The CHAIR: Mr Holton, I am conscious of time. We appreciate what you are giving us, but if you keep talking we will not be able to ask questions.

Mr HOLTON: Okay. The fourth one is some of the steepest country. In a nutshell, that is where we are at. We are proposing that the Government looks more closely into mitigation as a cost-saving benefit to everyone.

The Hon. LOU AMATO: Prevention is better than cure.

The Hon. LYNDA VOLTZ: Getting back to the levy and the Government funding, the New South Wales Government submission states that the cost to the fire and emergency services is fully funded from the New South Wales budget. That is not quite true, is it?

Mr HOLTON: No, it is not. If we focus on Rural Fire Service, we have three areas that the money comes from. Deloittes reported on the value of voluntary contributions, so the dollar value of a volunteer, which is something we do not have to cough up for—we do not pay for that, but it is a considerable amount. Then there is the 11.7 per cent currently paid by ratepayers through local government and the insurance side of it. What we would like to see is for that insurance element to be handed over, as per the original concept by the current State Government.

The Hon. LYNDA VOLTZ: The expense of the Rural Fire Service is $386 million according to the Government submission. Do you believe you are getting the levies for that $386 million? Is that what you are saying?

Mr HOLTON: I will get you to repeat the question.

The Hon. LYNDA VOLTZ: There is $1.2 billion in expenses per year allocated to the fire services.

Mr HOLTON: Yes.

The Hon. LYNDA VOLTZ: The Rural Fire Service gets $386 million of that. Do you believe that proportionally that is a correct representation of the emergency services levy?

Mr HOLTON: I have no reason to doubt that.

The Hon. LYNDA VOLTZ: If we break down the $1.2 million that is the actual expenses, that means that insurance is paying $756 million, $120 million is coming from local government, $70 million is written off by the Government for depreciation, $105 million is coming from revenue raised from within the fire services—do you know where that $105 million of revenue raised is coming from?

Mr HOLTON: No, I do not know how they raise that revenue internally.

The Hon. LYNDA VOLTZ: You have given me the 2013 Deloitte Access Economics report. Have you had a look at the 2017 Deloitte access report?

Mr HOLTON: No, I have not.

The Hon. LYNDA VOLTZ: Because it does those reports annually.

Mr HOLTON: Yes.

The Hon. LYNDA VOLTZ: I am sorry; I have not had a chance to go through it.

Mr HOLTON: That is all right.

The CHAIR: Mr Holton, will you provide information about the role of voluntary firefighting in cost-saving and cost-mitigation?

Mr HOLTON: Yes. I go back to when the Rural Fire Service first became a State entity. We started to see the role of the volunteer change dramatically. The fire service was, as I have just stated, a lot cheaper to run in those days because local volunteers had more control and input into looking after their own patch. Once it became globalised the budget started to expand. We are heading down a path that is not sustainable to the environment because of the way in which it is failing. If we look at the example of Tathra we find that was a failure of the Bush Fire Risk Management Plan; there is no other way to cut it. Those people were let down by that plan.

We had losses back then when volunteers were looking after the show but not to the same extent. It was because they were given more freedom to do local burning and local activities. They were more in touch with their local communities so they sort of got away with it. They got away with doing that; they did not have the red tape to complete a burn. It was more close knit inasmuch as the locals knew what was going on—probably more so in more remote regional and rural areas. Now we have a situation where the State has these huge budgets but in the bush there are still brigades that cannot even get power on at a shed. So it just does not make sense to me.

The Hon. SHAOQUETT MOSELMANE: It has been argued that the fire emergency services levy that is being proposed is an equitable system. You said in your opening statement that a broad-based property levy is a much fairer system. Will you tell the Committee which is the fairer and more equitable system? Is it the existing broad-based system or what is being proposed under FESL?

Mr HOLTON: I think what will make it more equitable is the balance between the system that is covered under the new Act that we are looking at but with a combination of improved financial modelling. I believe that the New South Wales State Government mucked up the modelling and that is what gave it all a bad name. No-one could deny that if everyone contributes it has to be a fairer system. But if we couple that with doing business in a smarter way to reduce the costs, everyone is a winner. In fact, we will save money. When everyone is debating this argument and looking at it they are forgetting about the cost of running emergency services. Let us look at that as it is a key part of it.

Interestingly, when we start to debate people's contributions I would have to say that in the bush a lot of farmers, even those who are doing it tough, would still be contributing to their local brigade to the tune of probably a couple of hundred dollars. I see that in my own brigade. We get farmers who, on top of paying the council rates and the insurance, rock up at their local fire shed and hand over a couple of hundred dollars. They do that willingly knowing that the locals are doing their bit. I say to those farmers "You should not be doing this. You should not be contributing." Whilst we appreciate it, volunteer firefighters should not have to raise money. The State took over the show. We no longer need chook raffles. We should be getting the money we need to do the job we do. But the old system did work.

Mr WILLIAMS: And it was much more efficient. The proof of the pudding is in the eating. In my area we used to burn on a seven- to eight-year cycle. We were under local government. I have now got 16-year-old and 17-year-old fuels all around me. It is only a matter of time before I get burnt out simply because I cannot get my burns approved through the current system. So we are getting a very inefficient system. This fire we just had to which the photos relate took off in 16-year-old fuels. It ran into two, 2½ year-old fuels and simply self-extinguished. That was on the eastern side of it and that is the way the wind was blowing towards the east. On the northern side of it where the 16-year-old fuels took we have had four helicopters working for 3½ days. Those helicopters are $1 per second, not a minute, to keep in the air. The cost of that fire was possibly $1 million all up.

If we had been allowed to keep our burning pattern going under local control that fire would have cost virtually nothing, just the time of the volunteers. It has became a very big fire simply because we are not managing the country right, and that is what we are saying. Let us start to get back and manage the country. Give it back to the locals and we can look after it.

The Hon. LOU AMATO: I really appreciate your common-sense and ground-roots approach as it makes sense and that could be looked at to address the funding issue. How would you address the issue in metropolitan areas as we have to look at the other side of the coin? I understand your point; it makes sense to me.

Mr HOLTON: Good. I am quite happy to let you know that we converse with all groups that impact upon our volunteers and our membership. One group is the Fire Brigades Employees Union [FBEU]. We have certainly talked to them about how what we do fits in with them. We have had some good dialogue between us on the connection between volunteers and all levels of firefighting, including retained and full-time firefighters. Certainly they often battle for their piece of the pie. When we look at these wasted funds we find that there is only so much money in the pot. While ever we are gobbling up millions and millions of dollars unnecessarily—

The Hon. LOU AMATO: What has made the costs go up?

Mr HOLTON: What has made the costs go up is—

Mr WILLIAMS: Aircraft at a $1 a second whereas in the old days—

The Hon. LOU AMATO: That is probably the main reason.

Mr WILLIAMS: That is the difference. Heavy fuel loads are giving us big fires and the fuel loads are getting heavier every year. We are simply not burning enough.

The Hon. LOU AMATO: Basically if you could do more controlled burns that would reduce the cost?

Mr WILLIAMS: Absolutely.

Mr HOLTON: If we talk about the emergency services' pie, and if the RFS is gobbling more of that every year because it has taken control away from locals, there is only so much of that pie to go around. Fire and Rescue NSW is fighting for the same piece of pie at times.

The Hon. LOU AMATO: I understand that if you reduce your costs you reduce red tape and it lessens the burden.

Mr HOLTON: We are not against a move towards a single fire service down the track either. I think this could be a very smart way to do business. Perhaps that is something the Government needs to take cautiously and move along steadily. I think it can benefit volunteers, certainly those who might have a desire to make a career out of their firefighting. It has benefits for those people.

The Hon. SHAOQUETT MOSELMANE: You indicated earlier that the funding for the Rural Fire Service has increased in the past 10 years by about $204 million. Has that not benefited the volunteer fire services? Has it had a trickle-down effect?

Mr WILLIAMS: No. I have been a captain in my area for 35 years now and I can tell you that our job is getting more difficult and more involved. We have less control and our fires are getting bigger. I have a beautiful station now with two big trucks. I am well equipped but I cannot use the drip torch like I want to, or how I used to use it. We are reacting to fires instead of preventing them.

The Hon. SHAOQUETT MOSELMANE: What proportion of this money is coming to you? I do not understand that aspect. Can you elaborate on that for me?

Mr HOLTON: Each district has to put in their bids for a range of things. Fire trails is another very good example. I know that we are going to see a situation where farmers are being asked to contribute to fire trails. That is an issue that I will be taking up. I will be fighting that all the way because a fire trail is a community asset. Even if you never put a rubber tyre on it, it has to be there. That is a classic example of there is only so much money to go around so something that is suffering is our fire trail maintenance.

If you want to know how much of that piece of the pie gets to the bush, go and visit some rural brigades—especially remote ones. You will see that they are in pretty shabby little sheds—no power. They struggle to get a second set of personal protective equipment [PPE]. The empire is here in Sydney. One of the things we have been pushing is to decentralise the Rural Fire Service and get it out of Sydney. That would put it closer to the rural communities it serves.

The Hon. SHAOQUETT MOSELMANE: Where it is needed.

Mr HOLTON: Where it is needed.

Mr WILLIAMS: Yes.

Mr HOLTON: If it ever becomes a single fire service, we can easily have an urban directorate and a rural directorate.

Mr WILLIAMS: The $386,000 figure is just to run the service. That has nothing to do with the firefighting costs. That is the big part of the pie—what it actually costs. It would be very clever for this Committee to get the actual cost of fighting fires within the State on an annual basis, because that runs into an enormous amount of money. The $386 million is chickenfeed compared to the cost of actually—

The Hon. SHAOQUETT MOSELMANE: Do you have any idea what it is?

Mr WILLIAMS: No, I do not, and you cannot get those figures.

The Hon. LYNDA VOLTZ: What do you mean by "the actual costs"?

Mr WILLIAMS: The cost of firefighting.

Mr HOLTON: The section 44s.

Mr WILLIAMS: The section 44s—all the big fires—get paid by the State or the Commonwealth. So that is an enormous—

The Hon. LYNDA VOLTZ: Would that not be the State's 14.6 per cent levy?

Mr WILLIAMS: Sorry?

The Hon. LYNDA VOLTZ: Your expenses—

Mr WILLIAMS: That is to run the Rural Fire Service. It is not the cost of firefighting.

The Hon. LYNDA VOLTZ: In total, once you include State Emergency Services and Fire and Rescue NSW, it is $1.2 billion.

Mr WILLIAMS: Yes. I am not talking about that. I am talking about the cost of actually fighting fires. That is not included in the money that the Rural Fire Service gets to manage the business.

The Hon. LYNDA VOLTZ: You mean including the volunteer hours?

Mr WILLIAMS: No, just the cost of firefighting—what it actually costs when we get these big, major fires for which the State and Federal governments have to pick up the tab, once the section 44 is declared for the cost of fighting fires. That runs into millions and millions and millions of dollars and that is money coming out of—

The CHAIR: Once they declare a section 44, it comes under immediate unlimited budget—State control.

The Hon. LYNDA VOLTZ: I understand that. But why would that not be captured by the expenses budget every year? It would have to be accounted within the—

The CHAIR: Because that only happens from job to job.

Mr WILLIAMS: Yes.

Mr HOLTON: I suggest that is a question that you need to ask.

Mr WILLIAMS: Yes. It would be very interesting for this Committee to get the actual cost of firefighting within the State. I think it would frighten you.

The Hon. LYNDA VOLTZ: You think those section 44 figures are not being encapsulated in the annual expenses?

Mr WILLIAMS: No.

Mr HOLTON: No, they are not appearing in the annual reports.

The Hon. LYNDA VOLTZ: Annual reports, yes. But have you looked at the Government's submission to the inquiry?

Mr HOLTON: Into this inquiry?

The Hon. LYNDA VOLTZ: Yes.

Mr HOLTON: No, I am not familiar with it. I am not fully across it.

The CHAIR: Thank you very much for coming. I note you have tabled some photographs for us, which we have got already.

Mr HOLTON: Thanks for your time. The main reason we wanted to come was just to broaden the scope here and encourage this Committee to look outside just the dollar values as well.

The Hon. LOU AMATO: We appreciate you coming in. You have been very informative.

The CHAIR: Thank you very much.

Mr WILLIAMS: Thanks very much.

(The witnesses withdrew)

GEMMA LAWRENCE, Senior Industrial Officer, Fire Brigade Employees Union, affirmed and examined

CHRIS READ, Senior Industrial Officer, Fire Brigade Employees Union, affirmed and examined

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

Mr READ: Yes. I come to these proceedings today with a sense of déjà vu, having given evidence to the Public Accounts Committee on essentially the same question 14 years ago now. It follows that I—and the union, more importantly—have an abiding interest and a long history in the matter. The question of fire service funding is obviously of fundamental interest to the union. I say the union has not approached this question purely on a self-interest basis. I note that our friends in the Rural Fire Service Association, for example, declared almost a sole interest in ensuring that the Rural Fire Service's funding base would remain undisturbed or unthreatened and having been assured of that, they were satisfied with the change. We certainly do not share that view.

The union, like the Australian trade union movement has traditionally done, has an interest that extends beyond simply its own members' immediate industrial interest to interests of social and economic concern for working class people and society generally. Consequently, we have approached this question on that basis. We are concerned, and have been now for over 20 years, by a push by the insurance industry to knock over what has been a longstanding funding model that has been simple and effective, has achieved what it set out to do, and recognises that the insurance industry is a significant beneficiary of the fire services.

One of the complaints or drivers behind the push over the past two decades to change the funding model for fire services not only in New South Wales but also around the nation—and it has been a national push to the point where I think the Insurance Council of Australia [ICA] has prevailed in all jurisdictions bar New South Wales—has been driven by the so-called free riders argument: The concern that those who do not have insurance do not contribute to the fire services and that is somehow unfair. The elephant in the room for us with the free riders argument is by proceeding with the changes proposed under the FESL or FESL-type models that actually turns the insurers into free riders themselves, the largest free riders of the lot.

The argument that follows from that is that insurance premiums will be reduced by the insurers if they are let off the requirement to contribute under the current arrangement. The experience of that interstate has been uneven. It has certainly been the case that it has trended the costs to the policy holder, landowners, citizens in interstate jurisdictions and that has been creeping upwards again. We do not trust the insurance industry, the insurers to keep those rates low. We have the seen the history of the siren's song of the green slip reform—the competition that was going to flow from that was going to result in cheaper green slips for all. We just do not believe that over time the savings that the insurers enjoy through these reforms are going to be passed on and will continue to be passed on into the medium- and long-term to consumers. There is a real concern for the union about letting the insurers off for hundreds of millions of dollars for a service that they directly benefit from, and we have approached much of our submissions in that way.

Unfortunately, I think there might be bipartisan support from both the Government and the Opposition for a move to a property-based levy system. If that be so—we are also realists—we do not support it for the reasons I have explained. We think that there should be tinkering with the system. If the current system were to be modified—again, one of the arguments is about people not having enough insurance or people not insuring enough. I think 36 per cent of the populous are estimated to not have contents insurance and consequently do not contribute on that basis. It is equally estimated that over 96 per cent of properties are insured and therefore if a revised current funding model was based only on the value of property and not contents, then many or most of those people could be picked up. I understand that the non-contribution through that approach would be in the area of 4 per cent. We understand that even under the FESL, if and when it were introduced, evasion of the FESL and non-payment would be in the area of 4 per cent or 5 per cent anyway. That is a nil-sum game; there is nothing between those two. That is to say, you can address many of the complaints of the current system by tinkering with the current system and not throwing the baby out with the bathwater.

But, as I say, if the system is to be changed to a property-based levy then we have set out in our short—presumably the Committee appreciates that it is short—submission seven guiding points that we say should underpin any new regime: to ensure that most if not all residents pay less, not more; to ensure that the Government contributes more, not less; that it should be easily understood and totally transparent; to ensure that contributions from different property sectors reflect their different risks and actual usage rates of the services; and they should be set within the Act and not by regulation—so it cannot be tinkered with at whim. The sixth point, which is an important one, was not a feature of the legislation presented by the Government last year—namely, it should exclude local government. We have been consistent about this. The involvement of local government is an historical anachronism. They have no more role in the provision of fire services now than they have ever had in the provision, say, of education services, police, ambulance. It is an historical anachronism that recognised the involvement and the contribution of local government to local bushfire brigades in a very, very different environment to the highly professional, organised and centralised rural fire service that we have today. So there is no justification for the continuation of local government's role. Finally, and importantly, to also ensure a permanent and ongoing role for the Insurance Monitor, if is introduced, given our previously stated concerns and open cynicism frankly about the capacity and the willingness of the insurers to continue to pass on without being monitored the savings that they are set to enjoy.

The only other thing I would say in opening is that we attached to our submission a document headed, "Ten key problems with the FESL", which we published to our members in March 2017. It is now almost 18 months old so it was written before the calculator was released and the actual figures that were going to be paid before the Government was forced to abandon the project, as it were. I have got to say that of the 10 points that we proffer there, they were the problems we saw with the FESL at that time, 18 months ago, and we were warning the public—there is an attached story from the *Sydney Morning Herald*—about the problems with the FESL before anybody else was. Of those 10 points we say, on the strength of what has emerged since, that eight of the 10 remain valid. The one that does not, as we understand it, is No. 2: The Government will pay less. We accused them at the time of doing this and it would appear that the reduction in stamp duty, which was to be experienced by Treasury through the abolition of stamp duty on insurance policies, was to be offset by this reduction.

That appears to us to be a reasonable point so we would withdraw that and we would acknowledge that that complaint is not valid—although that was not explained at the time; we had to wait for that to be explained. The other point is No. 4: The cost is being shifted from business to residents. We do not dispute the fundamental proposition that that is the case but Treasury apparently is now saying that they have updated those figures and they have new figures. They admit the figures that we relied upon in that point were correct but they have changed in the subsequent six years. That is a qualified concession on our part only because if they have changed in those six years, what is to say that they will not change again in six year's hence?

The CHAIR: Mr Read, I am conscious of the time. We are going to run out of time and not have any questions for you.

Mr READ: That was my concluding point.

The Hon. LYNDA VOLTZ: My first question concerns the free riders. Of the people who do have contents insurance, 67 per cent are renters. Do you think they should have been captured.

Mr READ: We would say fundamentally it is a public good. Why is it not funded by consolidated revenue like education, police and other agencies? It is an historical hangover that goes back to the 1870s, 1880s. That is all it is; it is anachronism. I think that answer is well and truly addressed but under the new model everyone will pay, will they not? If not by being landowners then certainly by the costs being passed on by landlords to tenants through higher rent.

The Hon. LYNDA VOLTZ: There is a correlation between those who do not have insurance and home insurance, which is a very small figure of 160,000, and there is a strong correlation between income and not having insurance. Indeed, the small proportion of people not being captured are probably those on the lowest incomes?

Mr READ: Indeed.

The Hon. LYNDA VOLTZ: Could I go to the figures that you put forward and to the actual funding of the levy itself? The figure where you say it has increased to 81 per cent is the actual levy under the FESL as opposed to, I think, 73.7 per cent in the previous one.

Ms LAWRENCE: Yes.

The Hon. LYNDA VOLTZ: Of the $1.2 billion in expenditure, that comes out as an increase being passed over to the public either through insurance or the FESL from $756 million, based on the figures that Treasury has given us for 2017-18, to $831 million. Did the Government ever give an explanation as to why they decided to proportionally charge a greater amount to the levy out there in the public?

Ms LAWRENCE: The first explanation that we saw for that change from the 73.7 per cent to the 81 per cent was the evidence that was given to this inquiry a week ago and the New South Wales Government submission where it explained the issue of the stamp duty. Prior to that there had been no explanation as to why there had been that change.

The Hon. LYNDA VOLTZ: Sorry, I could not hear that.

Ms LAWRENCE: Prior to the New South Wales Government submission and the evidence given by Treasury last week, there had been no explanation given to us about that change from the 73.7 per cent to the 81 per cent.

The Hon. LYNDA VOLTZ: That would leave the Government's contribution down to about 7.3 per cent?

Ms LAWRENCE: Yes, 7.3 per cent.

The Hon. LYNDA VOLTZ: In the Government's submission it says the cost of the fire and emergency services agencies is fully funded from the New South Wales budget. That would not be true, would it? It is practically all funded by this levy.

Mr READ: This is an argument that emerged probably in the last 15 years. The Board of Fire Commissioners used to collect its share of the levy directly and the Government would pay its contribution to the Board of Fire Commissioners as a separate statutory authority, and that is why prior to 1991, I believe—it might have been 1989; it is in that area—where the Board of Fire Commissioners did directly collect these funds, it was not true that that was the case. Post then, when the fire brigades became a central government agency, the funds have been collected in the same way, but because they are all now collected by Treasury they are allocated to the agencies, and the Government claims to be funding Fire and Rescue 100 per cent—it is not; it did not change. It is pea-and-shell stuff.

Mr DAVID SHOEBRIDGE: It goes through a different conduit.

Mr READ: Yes.

The Hon. LYNDA VOLTZ: In fact, part of the difference here is that the insurance companies got their levy and that they then decided how they break that down into the different portfolios and how it was allocated out. Under their FESL model, the assessment of people's liabilities and their levies became based on their land holdings, and that created part of the backlash.

Mr READ: The backlash was evidently through the fact that most people would pay more. The union as a property owner stepped to have its—and we were probably one of the commercial property owners that were identified as the problem, but our contribution was set to go from some $2,500, and I could give you precise, down to the cents if you like, on the current insurance levy to over $5,000 through the FESL. The saving of $47 a year was not, by our modelling, going to be the experience of the great majority of people, certainly in Sydney.

The Hon. LYNDA VOLTZ: That was the other point I was going to make. If you make it land-based, your increase from 73.7 to 81 per cent is the levy; you make it based on land valuations, then where land valuations have risen, and risen substantially, that is the market that is going to get hit worse.

Mr READ: Indeed.

Mr DAVID SHOEBRIDGE: Most insurance policies are insuring the improved value—in fact, they are not really insuring the land at all, they are insuring all the improvements. So if you move from a tax on the insurance to a tax on the land, that means those properties which have palatial dwellings on them pay less and those with modest homes on them pay more. That was your analysis too, was it not?

Mr READ: Indeed. It is another problematic aspect of the model as presented. I was told by senior Fire and Rescue management that the view of government and Treasury at the time was it should be on improved property value and not unimproved, and that is the case with, I think, all other jurisdictions in the State, that the estimate at the time, according to this person who told me this, was that it would have delayed the introduction of the FESL by up to two years and cost over a million dollars to accumulate the improved property value.

The CHAIR: It cost $100 million.

The Hon. LYNDA VOLTZ: Yes, it would have cost more than a million.

Mr READ: It was $100 million. My apologies, it was. There are figures circulating everywhere here. And it was the cost and the time that caused what was seen to be a preferable model jettisoned.

Mr DAVID SHOEBRIDGE: If you are talking about fire services in particular, apart from life, which is obviously the primary concern, in terms of what you are rushing to protect, it is the improved property, it is the capital investment that you are normally rushing to protect. Once life is safe you are putting out the fire to save the building, not to protect the land. So it makes sense that if there is going to be a levy that it be focused upon the cost of the building rather than the cost of the land, surely.

Mr READ: Again, without wanting to drag back, what we see as one of the advantages of the current model is that it actually connects risk and value with contribution by virtue of linking your contributions, your payments, towards the system to your insurance policies. So the greater the risk the higher the insurance you will pay and you pay therefore directly. There is a nexus under the current model which is being severed and lost altogether under the new model.

Mr DAVID SHOEBRIDGE: In fact, if you are an insurance company, having the fire brigade turn up and put out the fire in a building, it is kind of in the insurer's interest, is it not?

Mr READ: Absolutely.

Mr DAVID SHOEBRIDGE: Like 100 per cent in their interest. Therefore, your argument is why should they not be significant contributors to the scheme.

Mr READ: Absolutely. They are not an incidental beneficiary, they are a direct beneficiary. That is a 150-year-old history lesson as to why the current system acknowledges that.

Mr DAVID SHOEBRIDGE: We do not want to go back to individual insurers providing their own fire brigade.

Mr READ: No. That was a step too far.

Mr DAVID SHOEBRIDGE: I have one further question about the 4 to 5 per cent. We know at the moment about 4 to 5 per cent of property owners do not have home building insurance, and that has been pretty stable, from your observation, over the past decade or so?

Mr READ: We are dependent upon the advice produced by others, but I understand that is the case, yes.

Mr DAVID SHOEBRIDGE: Are you persuaded by the Government's argument that somebody who currently cannot afford insurance is going to suddenly be able to afford insurance because they get a $47, or even a $100 discount, on their cost of insurance, but at the same time they are going to be paying a $200 or $300 additional levy? Are you persuaded by the argument that somehow those people who will be financially behind will be suddenly insuring themselves?

Mr READ: Insurance is not that cost sensitive. I think everyone knows this. People make a conscious decision to take out insurance. I think most people would be insured by preference if they could afford it, but it is not so cost sensitive that you knock off $40 or $30 and there is going to be a stampede to the local insurer.

The Hon. LYNDA VOLTZ: The Insurance Council and the insurer said to us that the Treasurer had contacted them when he announced that he was rolling back this scheme and said it was only a deferral, and their expectation was that it would be reintroduced at a more opportune moment in the political cycle. Have you had any discussions with the Government?

Mr READ: The discussion we have had with the Government has been through the media. I do not think there is any doubt that it is just in abeyance. I noticed evidence the other day that was given about somebody saying it was dead, buried and cremated.

Mr DAVID SHOEBRIDGE: It would come back like a zombie after the next election.

Mr READ: That was never said; it has not been dead, buried and cremated. In fact, I think it has been made abundantly clear that it is going to come back. Our concern was that the only area that the Government seems to see a problem with is in the commercial rate, the $5,000 that we were paying rather than $2,500, not the residential rate. Yet the residential rate was where there was clearly a major problem, which was not identified by the media as the "Sydney tax" for nothing.

The CHAIR: It is rather a mismatch. The commercial organisations that they use as the excuse do not vote, but the 300,000 households do. I wonder what the reality is.

Mr READ: Indeed.

Mr DAVID SHOEBRIDGE: Would it be fair to say your suspicion is that as soon as the election is over, and if this Government is re-elected, instead of this tax being dead, buried and cremated, it will rise like a zombie and whack everybody?

Mr READ: We understand that it cannot be triggered. From our reading of the legislation as passed, it requires a 12 month lead time provided that the Treasurer makes an announcement—I think it might be about the ad velorem rate—by 1 July and it will then commence 12 months hence. You can call me Nostradamus: I predict there might be a publication next July post the election of what is $1 billion tax.

Mr DAVID SHOEBRIDGE: We will send you the transcript and you can frame it.

The CHAIR: Thank you very much for your contribution today.

(The witnesses withdrew)

GARRY GRANT, Chair, Rural Affairs Committee, NSW Farmers Association, sworn and examined

KATHY RANKIN, Policy Director, Rural Affairs and Business Economics and Trade, NSW Farmers Association, sworn and examined

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

Mr GRANT: As mentioned, I am representing the NSW Farmers Association. I am a primary producer of prime lambs and beef cattle in the Southern Tablelands of New South Wales at Braidwood and Bemboka. I am also a volunteer member of the Rural Fire Service [RFS], and I am the captain of the Bombay brigade. I mention this because it is not uncommon across farming communities for people to be RFS volunteers. If you like, we are contributors through the current insurance levy and we also pay our rates to the council, which contributes to fire and emergency services. We are also the ones who climb on the trucks and attend fires, motor vehicle accidents and so forth.

Ms RANKIN: The NSW Farmers Association welcomed the opportunity to make a submission to this inquiry. Our policy position, which has been developed over a number of years, is that we support a levy to fund emergency services, but that it must not be collected disproportionately from rural areas. That is probably the most important aspect for us at this time.

The Hon. LYNDA VOLTZ: The way the levy has been working within the insurance industry, and given that it is picking up 73.7 per cent of the levy at the moment, suggests it would probably be picked up more in areas of greater density. Because of the nature of insurance—that is, you are taking out insurance on a house or property—if you are in a very dense area in the city a larger number of properties are probably picking it up than in rural and remote communities. To an extent that scenario would probably play well into ensuring that the levy is spread equally across the State.

Mr GRANT: I do not know. A farm is a commercial business, and in this day and age it is sensible to have insurance of various types. Given the way the levy operates, it is up to insurance companies as to how they apply it. That is the issue we have had in the past and why we as an association advocated for some change. We could see that we were paying a levy if the insurance companies were being transparent about it, but it was not clear on what basis. It depends on what aspects of your farm enterprise you insure how much you might contribute.

The Hon. LYNDA VOLTZ: The Committee heard evidence from, I think, Penrith City Council that it experienced problems with the allocation of the Fire and Emergency Services Levy [FESL] on rural properties. Under the new model, rural properties were being charged a much higher rate than previously. Was that specific to that region, or were there problems across the board?

Mr GRANT: That might have surprised people in the case of Penrith because of the relatively high land values and small landholdings. You have high land values in the western part of Penrith. That would not be the only place across New South Wales where we have seen a significant increase in land values. Consider the North Coast, the Central Coast and a lot of the coastal areas and areas around major inland cities like Wagga Wagga, Dubbo and so forth.

The Hon. LYNDA VOLTZ: Are you finding an uneven application of the new FESL scheme because it is based on land values?

Mr GRANT: It is not only land values. We also found that a farm might have various holdings and, apart from the ad valorem, there was a base rate that applied to each holding. That added more.

The Hon. LYNDA VOLTZ: You might have four or five holdings and you pay four or five levies?

Mr GRANT: Correct.

The Hon. LYNDA VOLTZ: Did you approach the Government about that problem before the introduction of the FESL?

Mr GRANT: This association assisted in providing real figures to Treasury for its modelling. We made the point that there was a number of holdings and that that would have some impact on how much people would pay.

The Hon. LYNDA VOLTZ: Did you receive a response from Treasury at the time?

Mr GRANT: As far as I am aware, it was are pretty much one-way traffic.

Ms RANKIN: No.

Mr GRANT: We provided information and Treasury did the analysis.

The Hon. LYNDA VOLTZ: Were you aware that under the FESL the levy as opposed to insurance would increase from 73.7 per cent to 81 per cent prior to its introduction?

Ms RANKIN: No, we were not. The important thing for the association is that in introducing this levy we recognise that farms vary in size from very large to very small, to hobby farms and multisite locations. One of the things we identified in our response was that it would be very important that where a single ABN was responsible for multiple landholdings it should be recognised as a solid holding rather than separate holdings. Instead of having three or four different levies applied, a consolidated levy would recognise the size of the landholding.

The Hon. LYNDA VOLTZ: You will never be able to do that if you introduce a levy based on land title?

Ms RANKIN: If it is under a single ACN, yes.

The Hon. LYNDA VOLTZ: If you make a decision based on the ACN, you change it from land-based to company-based. Is that what you are saying?

Ms RANKIN: No, we are saying if it is land-based but you have a single identified owner of that that is not necessarily company but it is about a single identified owner or entity as the owner of the property.

The Hon. CATHERINE CUSACK: In regard to fire insurance could you tell us what that covers? I presume stock and fencing. Can you take us through what a policy will cover?

Mr GRANT: You have options when you buy insurance. Probably the most important one is indemnity, public liability, those sort of things. In terms of actual buildings you would insure your major infrastructure, be that your residence, your shearing shed, and significant buildings. As far as livestock, it is hard to know generally across there but usually unless you insure stud stock individually a maximum of $10,000 is included in your policy for the loss of livestock. It is not very much when you think of cattle prices today or recently—perhaps not today.

The Hon. CATHERINE CUSACK: Can you give us an idea of how much insurance costs?

Mr GRANT: Insurance costs, again on that, if you insure fences, which is one of the most significant things that you will lose if there is a fire event across your property, that can be very expensive. Your question was about the cost of insurance for farmers.

The Hon. CATHERINE CUSACK: I want to come back to the fences in a minute.

Mr GRANT: For farmers I could not say what the average is in round figures I can say I pay around $8,000 a year in insurance.

The Hon. CATHERINE CUSACK: In relation to fencing, I have noticed when there has been a big fire that a lot of farmers do not have insurance for fencing. Do you have any information on that?

Mr GRANT: No information on that, but I can understand why they do not—because of the added expense—and again you take that into account.

The Hon. CATHERINE CUSACK: What would be the main priorities for farmers when they get an insurance policy? What are the things they are covering?

Mr GRANT: Public liability, people rightly or wrongly trespass, they come on to your property, injure themselves and you are liable. You need that. Again if you have straying stock. The next thing is your significant buildings and your machinery—things that can be replaced.

The Hon. CATHERINE CUSACK: That $8,000 that is your total insurance bill including public liability?

Mr GRANT: Yes.

The Hon. LOU AMATO: That includes fences?

Mr GRANT: No, that does not include fences

The Hon. CATHERINE CUSACK: Most people do not have their fences insured?

Mr GRANT: You can opt in and out during the year. You do not have your fences insured for the whole year. The way this fire season is going I will be insuring mine very soon. You have them insured, rather than for the whole year, you insure them for the high risk period which is one way of trying to manage the risk versus the cost of insurance.

The Hon. CATHERINE CUSACK: A lot of farmers do their own fencing, so they might be willing to take the risk and if they lose fences they do it themselves?

Mr GRANT: It is still very expensive if you have to replace materials and labour. A fence, depending on the terrain, in the more settled areas it might be $10,000 a kilometre for materials plus labour to put up a fence, it is not insignificant.

The Hon. LOU AMATO: It is about $50 a metre from my experience.

The Hon. CATHERINE CUSACK: Just for materials.

Ms RANKIN: It depends on the type of fence. A five string pole and wire fence is at the bottom end. Increasingly, there is need for exclusion fencing and that is the high end. It is labour and materials.

The Hon. CATHERINE CUSACK: If you have equipment of your own and there was a fire you jump in the truck and off you go. Can you describe that? It does not have to be about you but typically what would a farmer be providing to that volunteer effort?

Mr GRANT: As a farmer I have a little portable pump which I will have around the shed on my property. We are members of a volunteer brigade. In my instance that brigade was established in the 1960s by a handful of landholders including my father and grandfather. I am now a member of that brigade. Over the course of time that was taken over by local government and it has morphed into the Rural Fire Service. We are now under that arrangement. We are in the Lake George zone, down in the Canberra-Queanbeyan region. If someone sees a fire they dial 000 and there is a fire call. I will get a page or text, "Bombay brigade is requested to attend an incident." We will call around and get whoever is available and meet at the shed and away we go.

The Hon. CATHERINE CUSACK: I grew up on a farm and we had tanks on the back of the trucks and a pump so you could fill the tank, and a telephone tree so you could respond to an incident.

Ms RANKIN: There is a requirement for tanks for grain growers, especially when they are harvesting to have those available. They are often not registered and set within the property boundaries. We have been talking with the Rural Fire Service about how they may be able to get conditional registration or recognition to go out on to the road and contribute more broadly into the firefighting effort.

The Hon. CATHERINE CUSACK: It is a big help.

Ms RANKIN: It is essential because they are in sparsely populated areas. The farmers on the ground are the ones who know what is happening and where it is happening. They know the terrain, they know the opportunity and they are the best placed to make the call and the decisions about where to attack the firegrounds.

The Hon. LYNDA VOLTZ: I wish to ask about administration fees. Do you have concerns that administration fees are being included in the collection of the levy by the councils?

Ms RANKIN: Our concern was the lack of transparency about how much is collected and how it is divvied up and therefore what would be the administration costs. It is quite obvious that when you have multiple levels of organisations involved in administering things there are going to be costs included, whether administration or other, that helps to dive into some of that collected total. What we wanted to make sure was if there was a levy collected that there was transparency about what was being collected, how it was being allocated and what it was being used for.

The Hon. LYNDA VOLTZ: We have heard from Cowra council that it was charging an administration fee. Did you receive an indication from government as to what administration fees were being charged?

Ms RANKIN: No.

The Hon. LYNDA VOLTZ: Mr Grant?

Mr GRANT: No, we did not get any indications. There might have been some estimates from the Government.

The Hon. LYNDA VOLTZ: We will ask at estimates. I was wondering whether you had any indication. Based on the compulsory third party refunds the Government is charging a $10 administration fee. You would not expect it to be much higher than those fees?

Mr GRANT: As far as I recall there was an undertaking that local government would need to collect this levy but it would need to be supported by the State in order to be able to make the collection.

The Hon. LYNDA VOLTZ: It was and it got money to roll it out in the first instance and compensation when it closed the scheme. But the councils are telling us that they were allowed to charge an administration fee.

The CHAIR: Thank you Mr Grant and Ms Rankin for coming.

(The witnesses withdrew)

ALLAN FELS, Monitor, Emergency Services Levy Insurance Monitor, sworn and examined

JOANNA IFIELD, Director, Emergency Services Levy Insurance Monitor, sworn and examined

The CHAIR: Professor Fels, would you like to make a short opening statement?

Professor FELS: Yes, and I will go for about five or seven minutes. I am the Emergency Services Levy [ESL] Insurance Monitor. I have a deputy, Dr David Cousins, who is overseas today. We were appointed in June 2016 connected with the original proposed reform. The key functions, as set out in the 2016 Act, include provide information, advice and guidance in relation to the ESL reform and particularly prohibited conduct—I will tell you what that is in a minute; monitoring premiums of insurance policies subject to the ESL; the impact of the ESL on insurance industry and levels of insurance coverage; considering whether individual insurers have engaged in prohibited conduct. There are two types of prohibited conduct—false or misleading conduct in regard to the reform, for example, giving a statement that this price rise is due to the ESL when it is not; and the other is price exploitation, which is overcharging in relation to the price of insurance covered by the ESL.

Another important function, which is ongoing, is to make sure that insurers do not collect more of the Emergency Services Levy than is necessary to fund their contribution liabilities—the overcollection issue—and receiving complaints and so on. We are purely involved in administering and applying the consumer protection regime in the Act and we are independent; the Minister cannot tell us what to do. The functions have been little changed since 2016 except there is a somewhat greater focus now on assessing overcollection of the tax. The monitor's role was due to cease in December 2018, but was extended to June 2020. In that time, the monitor can complete the assessment of overcollection of ESL for the 2018 and 2019 financial years.

Now a little bit about why there is an insurance monitor. The broad context is that there is generally rather high consumer distrust of insurers, some lack of confidence that insurers will not pass on to them any savings if the ESL had been taken off. In Victoria, where I performed a similar role, the existence of the monitor was seen as an important part of the success of the Fire Services Levy [FSL] reforms when they were actually implemented. I believe that the public's lack of confidence is not unwarranted because there are weaknesses in competition in the industry, mainly because of information problems, information asymmetry, which is that the insurer knows more than the customer, and certain other behavioural things that affect consumers.

Those weaknesses stem from a number of things. Insurance is inherently complex and not well understood by most people. The pricing of insurance is not transparent and it is hard to compare one policy against another. In addition, typically the industry has not told you when you are renewing your insurance what you paid last year. We have been pressing that issue quite hard in this industry. We believe it should be put on your renewal policy notification. A lot of people do not spend much time analysing their insurance policies and shopping around for the best deal. Consumer awareness of the ESL part is very poor. Many people do not notice it is on their policies and are not aware that they are paying for it in their insurance. Also, in New South Wales, insurers charge the ESL as a component of the premium. There is the base premium and then the ESL is added on. There is no legislation prescribing how much ESL to actually charge, so this gives insurers an advantage over their customers.

We are not the only ones who think there is a competition problem. There have been recent inquiries. A Senate Economics Reference Committee and the Productivity Commission have both agreed with us, and we believe the performance of general insurance markets is short of what would be consistent with workable or effective competition of which, of course, one component is informed consumers and that there is greater advantage to take advantage of ESL reforms to raise premiums reasonably.

Prior to the deferral when the ESL was being removed, because people started removing it before the due date, there was a risk that insurers could undermine the reform by seemingly taking off the tax but pushing up their base premium to offset the removal. We focused on that issue to make sure there would be proper removal. There was a need for that. In Victoria, there was a similar reform and we identified insurers who did the wrong thing. We had one successful court case and accepted a number of court-enforceable undertakings from insurers. They refunded around about $27 million to policyholders and others for overcharging. With the ESL system continuing as is, there is a remaining risk. Insurers could use changes in the ESL as an opportunity to increase base premiums or to blame premium rises on the ESL. That is not so difficult to achieve in this context.

We have spent quite a lot of time in the last quarter engaging with insurers on their communications with consumers—that includes business consumers, commercial users—about the deferral of the ESL. We thought their communications were a bit below the standard that we thought they should exhibit. We think they need to be very clear to consumers how their reinstatement of the ESL is affecting the change in premiums. Again, I repeat they did start taking it off before they had to, but now they are putting it back in. It was not terribly well explained.

As monitor, I take my role seriously. Last week, I believe the Insurance Council of Australia [ICA] head, Mr Rob Whelan, said that the monitor's role should be reconsidered as insurers fund the cost of the monitor but can see little connection between the monitor's activities and his ESL monitoring role. That is not correct. Insurers, in fact, have not been charged one cent of the monitor's cost. They do not pay for us. Also, it is a little bit misleading because the monitor's role is somewhat broader than the ICA would want it to be. Also, on this compliance issue, it is true we have been requiring insurers to provide us with the necessary data. Our data requests really pale into insignificance compared to what the Australian Competition and Consumer Commission [ACCC] is getting for its inquiry into north Australian premiums and the royal commission's data requests. Also, to a degree, we have been coming up with obvious ways of reducing costs in the collection. But the insurance industry has always had a bit of a pushback and fairly unwilling, grudging cooperation, and so it has not taken advantage of the opportunities we have offered to save it compliance costs. But anyway, I believe that compliance costs are quite small.

Our work has contributed to consumers. Firstly, as a result of us scrutinising the collections, the Insurance Australia Group [IAG] refunded $6.8 million of overcharged ESL to NRMA customers in October 2016. That overcollection occurred outside our strict monitoring period, but it was our pressure on them to check that they were not overcollecting that resulted in that outcome. Also, we have been successful, you could say, in ensuring that customers are not charged more ESL than insurers are required to contribute to the funding of emergency services. Over the 2016 and 2017 financial years, insurers collected about $46 million less than the contributions they have made to emergency services. I think everyone would agree that was because we were looking over their shoulders rather closely. It is not our view that they should undercollect or that they could not make it up, but just that we have had that, I would say, by-product of our close scrutiny that they undercollected by a fairly high amount compared to normal. We are currently repeating this exercise for 2018 and 2019, consistent with the Government intention that:

> insurance companies collect only the amount necessary to meet fire and emergency services funding requirements.

So we believe that the price monitoring that we do is helping or should help keep insurers honest. We do monthly monitoring and we find very, very big differences in insurance premiums for identical situations. What we typically do is go to about 11 areas of New South Wales and I think we go to 12 insurers. We say, "Here is the street number in this suburb. Here is the insurance specification of what we want." And then we get a quote, and there are very big differences in the quotes. Typically, in one area the top might be $2,200 and the bottom would be $1,200—that is the order of difference from different insurers for an identical property and product. We found the insurers had been pretty unhappy with this scrutiny, but also they have not been able to explain the differences. They have put up a couple of reasons that do not stand up because we have pursued identical policy questions and so on. We do ask the insurers, "Well, how do you operate? How do you set prices?" And that is why there is some tension with the industry; it is not very fond of these questions being asked.

On the question of the Government's attitude to reviving the Fire and Emergency Services Levy [FESL] or anything like that, I have no information—official, unofficial, direct, indirect—what the intentions are. My job is just to carry out my functions under the Act. We have required from 1 July 2019, by law—or by regulation—that insurers tell their policy holders what they paid last year for the home insurance premium, including any ESL. We have been calling for this from the very start and it was not adopted voluntarily by the insurers. It is an important initiative; it would increase pricing transparency. Moreover, the Senate Economics References Committee, which looked into general insurance in August 2017, and more recently the Productivity Commission have followed the monitor with similar recommendations. So we have been putting some pressure on the insurers just to put on your premiums what you paid last year. I had my car insurance done the other day and I was noticing I got a flood of information: everything you could possibly want to know about the car, the drivers, any previous claims and so on—everything, pages of it, except what I paid last year. It is similar with home and contents insurance.

I do see some progress occurring in the industry in New South Wales. I can see they are starting to move on this. But it is a requirement under our regulation-making power that they actually do it from 1 July 2019. We will continue also to highlight the large pricing differences that I explained to you for identical quotes and try to raise consumer awareness, hoping that will generate more restraint in pricing. That would seem to be a good outcome. That is my account. Thank you very much.

The CHAIR: Thank you.

The Hon. LYNDA VOLTZ: Thank you, Professor Fels. Looking at your last report, Hinton had a huge premium increase based on its flood risk. How does that work with the emergency services levy? The insurance company is given an amount it has to collect. It then decides how it will allocate it down to the premium. So if a customer is in Hinton and has been subject to a flood and the premium goes up to $2,000, does the emergency services levy increase proportionally?

Professor FELS: Yes. Let me give you the theory for a minute, and then I am going to ask my colleague about the real world. In theory, it should make no difference but I think it could make a slight difference. It is percentage ESL. So if the base premium goes up in Hinton, for the reasons you have mentioned, the ESL collection would go up because it is based on a percentage. I think that is basically a correct answer to your question. Thank you.

The Hon. LYNDA VOLTZ: I was not sure how that worked. I now turn to the collection. You have a graph where you break down how much is collected on housing and contents and how much is collected on commercial. In the 2018 report you had 48 per cent of the ESL for contents and house, 49 per cent for commercial, 3 per cent motor vehicles and 1 per cent other. In the Government's submission they had liability for the ESL as 56.4 per cent of residential. I am not understanding the difference between your graph and the Government's figure of 56.4 per cent?

Professor FELS: The short answer again—and I will check this with my expert colleague—is that the rate is higher on commercial. That is correct, is it not?

Ms IFIELD: It is higher, yes.

Professor FELS: It is a higher rate on commercial. Then our data on collection for 2016-17 is about the same. You are quite correct. There must be fewer commercial collections so they have got a higher rate. If there were an equal number of housing collections or equal value then commercial would be a lot higher. But I assume there is a smaller number of collections they make commercially and that is why the aggregate collection is about the same as from residential.

The Hon. LYNDA VOLTZ: So under the existing system because commercial is perhaps paying higher premiums or a higher rate of what they are insuring, and they are insuring at a greater volume, they are picking up 49 per cent of the emergency service levies?

Professor FELS: Correct.

The Hon. LYNDA VOLTZ: But because there are a greater number of residential land-based properties they are picking up the greater proportion of the emergency service levy at 56.4 per cent, which is where the Government comes up with its figure. That would be the kind of breakdown, would it not?

Professor FELS: The ESL itself is not based on land. The reform I think was based—

The Hon. LYNDA VOLTZ: I am sorry, the FESL. The 56.4 per cent is under the FESL because that is based on land?

Professor FELS: Yes.

The Hon. LYNDA VOLTZ: Currently it is 50:50 because it is based on what you actually insure for?

Professor FELS: What you have inferred sounds correct to me.

The Hon. LYNDA VOLTZ: I turn now to housing and content insurance—and this is probably more an ideological argument—but 67 per cent of people who are not insured for contents are renters. When talking about those who are not being picked up for the emergency service levies, some of the reports say there is a correlation between income and having house insurance. There is that 5 per cent to 6 per cent who do not have housing insurance, but the greater figure that presented was 35 per cent for contents and the bulk of that figure appear to be renters. How is that being worked into the consideration?

Professor FELS: I agree with the general, if you like, ideological thrust that people at the bottom of the pile can get caught in this and may not take out insurance. Ms Ifield, do you have any comments on rental?

Ms IFIELD: Not really. We do not have any information on it.

Professor FELS: No, we do not have any information on it.

The Hon. LYNDA VOLTZ: I think Treasury did make the point at the beginning that there were probably flaws in the data they had available to them. Earlier the representative from Cowra Shire Council talked about—and I do not if you monitored this—as part of the FESL charging administration fees?

Professor FELS: We were solely involved in the old system. We were not in anyway involved in assessing the new system.

The Hon. LYNDA VOLTZ: So you did not look at the new system at all?

Professor FELS: No.

The Hon. LYNDA VOLTZ: So you had no input into that?

Professor FELS: No. It was not our job.

The Hon. SHAOQUETT MOSELMANE: My question relates to having the previous year's premium put on the new policy. Why are the insurance companies resisting putting the previous year's premium on the new policy?

Professor FELS: They generally say things like, it would cost a lot of money, it is technically difficult and it could lead consumers to make bad decisions because there may have been some factors in the change that they do not understand. Now that is what they say to us and I have been sceptical of that. I believe that it is a self- interest in having a less-informed market, meaning there is less competition, less-informed consumers. I believe it is not costly to put this information in and it would be a good thing. I understand that in the United Kingdom they have actually now enacted a law saying that you have to be told what you paid last year.

The Hon. LYNDA VOLTZ: Is there a need for us in New South Wales to enact a law to require them to do it or are the regulations—

Professor FELS: What has happened is that there is a regulation-type power that we have—we have required that it be done from the year 2019 and we expect that will be complied with. When we go because we are not here forever—and we are not particularly seeking to be here forever either—I imagine it is possible that they would stop doing it, but I imagine once they do it that it will be hard to undo it. There is also some pressure at a federal level to do it. If you wanted to, as a minimum, say that it is highly desirable that this should occur, that would be useful as a source of pressure. Whether you require a law about it is more a political or policy call for you all.

The Hon. LYNDA VOLTZ: I think it was Mr Whelan from the Insurance Council of Australia who said that the insurance industry was paying for your role?

Professor FELS: Yes.

The Hon. LYNDA VOLTZ: Why do you think they were confused about where your funding was coming from?

Professor FELS: What did happen was at the beginning, in the first year, they paid for our costs, which was whatever it was. Then at the end of the first year the Government stepped in and said, "No. We will pay all the costs." That included refunding them the initial payment. So he may have got confused over that. I have no reason to think that he was trying to mislead the Committee. So they paid year one but they got a full refund. Since then the Government has made it really clear that it bears the cost, fully.

The Hon. LYNDA VOLTZ: Why did the Government step in and do that? Did it give an explanation?

Professor FELS: I do not particularly know what the reason was. I do not know. I do not think I was even consulted about it.

The Hon. LYNDA VOLTZ: You were not consulted about it?

Professor FELS: No.

The Hon. SHAOQUETT MOSELMANE: Earlier today the Fire Brigade Employees Union said that the Insurance Monitor should have an ongoing presence. In their submission they said, "… should have a permanent and ongoing role for the Insurance Monitor." Is there a fear that the Insurance Monitor may not exist after the election? I think you indicated that you have until 2020.

Professor FELS: Correct. It has got until 2020, and the rationale for keeping it going that long, looking at it from that point of view, is that the overcollection issue needs to be looked at. Another slightly more remote but not bad idea is that it would be nice if a couple of things were guaranteed to happen by then in terms of getting a more competitive industry. So if this monitor is staying around until then, I think the point about this year/last year comparisons is much more likely to be delivered. There would be, as always in the community, two views on whether there should be price regulation of insurance forever, but I do not know that I would particularly favour that; but you could argue 2020 is a fairly good date, not only because the collection question is settled, but also it just gives us a little bit more time to get the industry into a more competitive situation so there is less likely to be consumer exploitation beyond then.

The Hon. DAVID CLARKE: Professor, I came in late so I may have misheard, but did I understand you to say that insurance companies collected less in levy contributions than what they paid out in contributions?

Professor FELS: Yes.

The Hon. DAVID CLARKE: Clearly, there must be some explanation for that. Were there different collection periods and payout periods? I mean they are not putting their hand into their pockets.

Professor FELS: No. There are two issues. I will try and give you a general explanation of the problem and then what happened in 2016. The first bit of the story is why is there under or overcollection? It is more or less inherent in the system that the collecting moment is based on guesses as to what their sales and market share and everything will be; so that is going to end up wrong. Just saying that in slightly more detail: say you are working out how much should be collected in the year 2018-19, the insurers have to be told that before the beginning of the year 2018. Theoretically, it would be ideal if we knew what they were going to collect in 2018- 19 but we do not. Indeed, we do not even know at the time of the decision how much they collected in the year before, but they have got fairly good information so they use the best data for the year before to estimate what they have to pay. That always leads to some undercollection or some overcollection, and then it is made up.

The Hon. DAVID CLARKE: In other words, at the end of the day it equals out?

Professor FELS: Yes, that is right. We will come back to that one, that is a third point. I would also make another point that, in a sense, as your question implies, it never mattered that much if there was an over or undercollection because they fixed it the following year. However, had the ESL abolition gone through, this question of over and undercollection got a little bit more complicated because they were not meant to have any ESL factored in their price. So there was a fair bit of interest in the period when we thought the reform would go through.

In 2016, that financial year, in the two years before the reform there was quite a big undercollection and I think everyone accepts that they were a bit worried about the monitor looking at them closely. So they ended up being a little bit cautious and they undercollected. They are entitled to get that back to balance it over time. On that other passing comment of yours, there is always the possibility of overcollection and even, to a slight degree, systematic overcollection and we have been looking at it—it is the first time someone from outside has had a really close look at it—and we have noticed there are various errors and mistakes they make in assessing this and putting it onto premiums. So we are a bit concerned there can be some systematic, ongoing overcollections despite all the mechanisms at work.

The Hon. SHAOQUETT MOSELMANE: So they are not systems mistakes, they are mistakes?

Professor FELS: I think we did conclude they were probably, I would put it more at the innocent end than like, say, by the royal commission on banking standards; they would be innocent mistakes.

The Hon. LYNDA VOLTZ: Miniscule. What they put forward is because they get the figure at the end of the year it is very hard for them to estimate what the collection rate is going to be. Is there any way around that problem?

Professor FELS: You could just specify in advance what it should be, but then there is a slight injustice to some and a benefit to others. So for whatever you like, over the many years it has been thought we will do it that way and the washing out approach has been seen as better than making a big mistake with something definite.

The Hon. DAVID CLARKE: Do you come to your view on the balance of probabilities or beyond a reasonable doubt?

Professor FELS: Balance of probabilities.

The Hon. SHAOQUETT MOSELMANE: If FESL was to be introduced, will the monitor continue to exist?

Professor FELS: All I can say is the monitor is there until June 2020. So it would be up to the Government to decide it. I have absolutely no idea what the Government's plans are, but I would imagine if they were to reintroduce the reform there would be a strong case for the monitor. The original case for the monitor was, okay, you have got to watch price changes associated with a tax reform, but the really strong point is that you would be taking a big tax off an insurer and hoping that competition would bring the price down. It is very different when the price is going down than when the price is going up.

You could, if you had faith in the market, say here is a new tax, they have got to put up the price 20 per cent or something; they will be struggling to do it in the market, we have not got too much to worry about. But even pro-competition hawks a bit like myself are more worried about reducing a price. I think my Economics 101 textbooks tell me that, in theory, in a competitive market it would eventually come down, but even then it does not tell you how long it would take. I reckon it would take a long time to adjust the price down. So it is the fall in insurance premium to customers that has to be delivered on.

The Hon. SHAOQUETT MOSELMANE: We hope.

The Hon. LOU AMATO: Earlier on you stated that you were trying to get a price comparison between insurance companies and there was a vast difference. What were those reasons?

Professor FELS: In a sense that is a kind of deep question. I can start at the easy bit by saying that consumers are not well informed; they do not know about these things and they do not shop around terribly much. It is a fair bit of trouble to shop around and to get different quotes.

The Hon. LOU AMATO: People are so busy and there is a tendency perhaps to take advantage of that situation.

Professor FELS: Yes, it is an inertia thing.

The Hon. DAVID CLARKE: Do you put out a detailed list of the variations?

Professor FELS: Yes, we name the companies.

The Hon. LOU AMATO: Of course, there is a reason they do not put last year's prices on the renewals.

Professor FELS: Correct.

The Hon. LYNDA VOLTZ: Is it perhaps more an issue of competition within the marketplace as well? We saw that with CTP insurance; there was a contraction in the number of players in the market.

Professor FELS: Yes. I think that is a more general point because if there was a fair bit of competition then they would advertise that they had a cheaper rate and so on. Some get into the problem you have raised.

The Hon. LOU AMATO: When CTP was first implemented there were 36 providers and there are now six.

The Hon. LYNDA VOLTZ: There are four.

Professor FELS: There are two stories about competition here. One is that there are many offerings. The second is that in fact it is a concentrated market. We have taken that view. NRMA alone has 40 per cent of the market and the next one is quite high. The top three or four providers have most of the market.

The Hon. LYNDA VOLTZ: Your report indicates that NRMA was one of the higher premium providers.

Professor FELS: It was somewhat difficult to generalise.

The Hon. LYNDA VOLTZ: You used the example of, I think, Hunters Hill. I cannot remember.

Professor FELS: We certainly did not state that some company was relatively high or low. I think the figures we published did not cause people to jump to a conclusion about who was over- or under- charging; it did not jump off the page.

The Hon. LYNDA VOLTZ: Because they were all within a range?

Professor FELS: Yes.

The Hon. LYNDA VOLTZ: But I think there were three or four insurers backed by AI.

Professor FELS: That is correct.

The Hon. LYNDA VOLTZ: And then you would go to the other end of the market. A number of insurers were grouped around a certain premium level.

Professor FELS: Yes.

The Hon. SHAOQUETT MOSELMANE: Does the monitor have meetings with the stakeholders?

Professor FELS: Yes.

The Hon. SHAOQUETT MOSELMANE: Such as the Fire Brigade Employees Union, the Combined Pensioners and Superannuants Association of NSW and so on? Did people affected by this give feedback?

Professor FELS: We meet the industry a fair bit. I do not know whether we have met the union. We have had a couple forums on the consumer side, but I do not know that the pensioners were there. It was more about the issues we have been talking about.

The Hon. SHAOQUETT MOSELMANE: They have made submissions to this inquiry. You might be interested in looking into that.

Professor FELS: We would be happy to do that. We should perhaps think a bit more about that. We are slightly narrowly consumer focused.

The Hon. LOU AMATO: Who monitors the insurance companies, their premiums and pricing?

Professor FELS: No-one; there is no-one generally who monitors them, nationally or in the States. We happen to be doing it as part of this exercise, so the monitoring is a bit biased towards looking at the tax aspect.

The Hon. LYNDA VOLTZ: Perhaps Mr Amato is advocating for State intervention in price monitoring.

The CHAIR: Thank you very much for appearing before the Committee.

(The witnesses withdrew)

(The Committee adjourned at 12.44 p.m.)