

Review of NSW Government Radio Services  
Independent Pricing & Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230  
Via email: [mobilerradio@ipart.nsw.gov.au](mailto:mobilerradio@ipart.nsw.gov.au)

13 April 2011

Dear IPART

**Insurance Council of Australia submission to the NSW Independent Pricing & Regulatory Tribunal (IPART) Review into the pricing of NSW Government Mobile Radio Services**

The Insurance Council of Australia (ICA) welcomes the opportunity of providing this brief submission to the IPART Review into the Pricing of NSW Government Mobile Radio Services. The ICA interest in this Review stems from the potential impact of any proposals for change on the statutory contributions system for the funding of the NSW Emergency Services and in particular, the extent to which price adjustments to the mobile radio service regime are “passed through” into higher contributions to the general insurance sector. The material provided in this submission is designed to assist IPART in assessing the impacts of mobile radio services on users including serving to answer IPART’s specific question number 11 which inter alia, states “*If you were funded by statutory contributions, what was the size of those contributions in 2009/10 and 2010/11 and what proportion related to the charges levied on you by the GRN*”.<sup>1</sup>

**Insurance industry contributions to NSW emergency services**

Under the respective NSW emergency services Acts,<sup>2</sup> insurance companies are required to contribute 73.7% of the costs of the emergency services agencies (i.e. the NSW Fire Brigades, the NSW Rural Fire Service & the NSW State Emergency Services). In 2010/11, the gross amount payable by insurance companies for all three emergency service agencies is expected to be \$672 million up from \$602 million in 2009/10.<sup>3</sup> Over the last decade, insurance contributions to NSW emergency services have escalated from \$307 million in 2000/01 to \$672 million today – a 120% increase.<sup>4</sup> A detailed summary of insurance contributions to the NSW emergency services agencies is outlined overleaf.

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<sup>1</sup> See NSW Independent Pricing & Regulatory Tribunal “*Pricing NSW Government mobile radio services: Issues Paper*” (March, 2011)

<sup>2</sup> See *NSW Fire Brigades Act 1989*, Section 48; *NSW Rural Fires Act 1997*, Section 107 & *State Emergency Service Act 1987*, Section 24F

<sup>3</sup> That is the NSW Fire Brigades, the NSW Rural Fire Service and the NSW State Emergency Service.

<sup>4</sup> It should be noted that following the NSW Mini Budget of November 2008 and the subsequent passage of the *State Revenue & Other Legislation Amendment (Budget Measures) Bill 2008*, the State Emergency Services was included in the statutory contributions system.

## INSURANCE INDUSTRY CONTRIBUTIONS TO THE NSW EMERGENCY SERVICE AGENCIES

(\$ Millions)

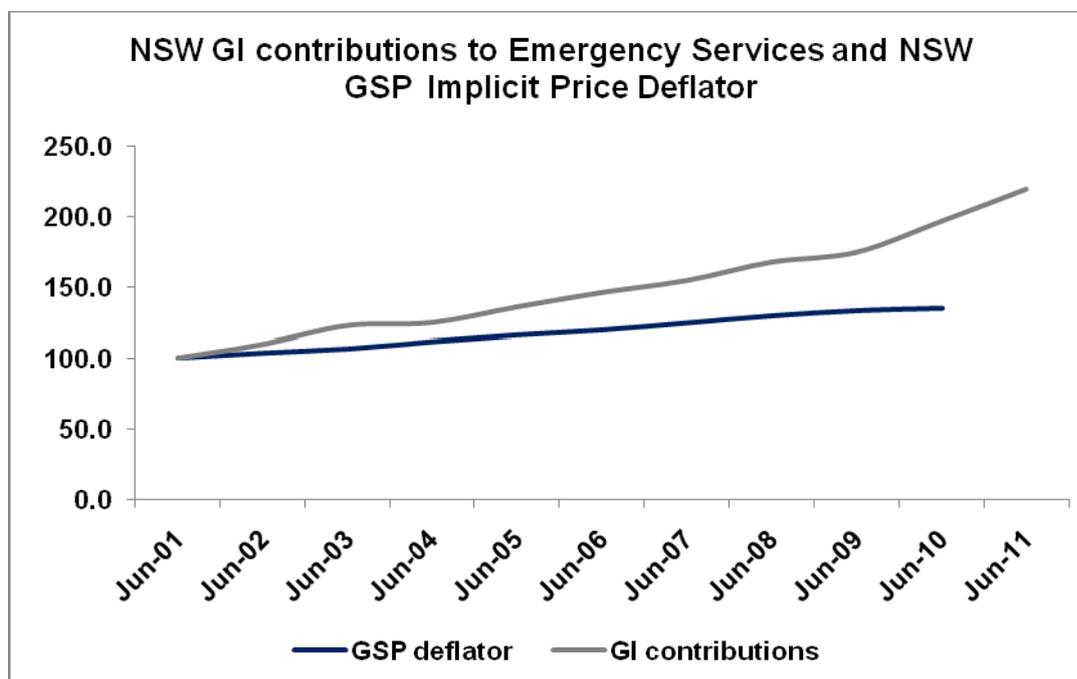
Year Ending	NSW Fire Brigades	NSW Rural Fire Service	State Emergency Service	Total
June 2001	239.5	67.1		306.6
June 2002	253.0	83.3		336.3
June 2003	286.5	89.0		375.5
June 2004	289.7	92.2		381.8
June 2005	316.7	98.9		415.6
June 2006	343.4	103.4		446.8
June 2007	349.0	123.9		473.0
June 2008	366.6	146.4		513.0
June 2009	378.6	156.0		535.6
June 2010	403.4	159.6	39.2	602.1
June 2011	438.7	189.5	43.8	672.0

Source: Insurance Council of Australia

The growth in insurance company contributions is also demonstrated by the graph overleaf which charts insurance contributions against growth in NSW inflation.<sup>5</sup>

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<sup>5</sup> The measure of NSW inflation is the implicit price deflator for NSW Gross State Product.



Source: ABS & Insurance Council of Australia

As the graph demonstrates, growth in insurance contributions has exceeded the growth in NSW inflation over the last decade. Growth in NSW inflation has averaged 3.4% per annum while over the equivalent period, general insurance contributions have increased by 8.2%.

The process under which insurers recover contributions for NSW emergency services from policy holders was outlined in the ICA submission to the IPART Review into State Taxation.<sup>6</sup> In this submission, the ICA stated:

*“Insurers recover the fire services contributions they make to the fire services through imposing a levy on their insurance policy holders. Failure to recover fire services contributions from policy holders would otherwise require such funding to be internal to the insurance companies, severely compromising their profitability and draining their shareholder capita.*

*Insurers recover such fire services contributions through the mechanism colloquially known as the Fire Service Levy. Although the Fire Service Levy is not set out in the Act, Section 80 of the NSW Fire Brigades Act requires insurers to disclose to policy holders what proportion of a given insurance premium is attributable to such a levy.*

*The actual process of determining the appropriate recovery charge for fire contributions is complex and very difficult for insurers. Given that contributions are sought in advance (thereby leaving insurers with the task of forecasting the market) and that any insurance recovery takes place on the insurance premium base, fluctuations in both the market (i.e. mixes of business) and the premium levels (i.e. hardening or softening markets) results in insurance companies bearing all collection risk for the fire services. Under or over collection is an inevitable feature and failure of the current system”.<sup>7</sup>*

<sup>6</sup> See Insurance Council of Australia “Submission to the NSW Independent Pricing & Regulatory Tribunal Review of State Taxation” (November, 2007)

<sup>7</sup> See ICA (November, 2007) “Op Cit” page 8

## **IPART & the Review of Australia's Future Tax System (Henry Review)**

IPART identified the statutory contributions system and the fire services levy in particular, as a relatively inefficient tax. In a similar vein, IPART rated fire services contributions poorly in terms of equity (due to the “free rider” problem) and transparency. The overall assessment from IPART was that fire services contributions resulted in a weighted “score” of 2.2 out of 5, giving the tax a seventh (and second last) overall tax criteria ranking.<sup>8</sup>

IPART's assessment of the statutory contribution system led to the finding in its Draft Report that “*the Fire Services Contribution by insurers is effectively a levy on insurance and creates disincentives for taking out appropriate insurance. On this basis, its removal should be a priority*”.<sup>9</sup> Moreover, in the Final Report on State Taxation, IPART recommended that “*In the short, the statutory contributions by insurance companies to fund fire services should be replaced by an equivalent, transparent property-based levy collected by local councils...*”<sup>10</sup>

Insurance taxation, including statutory contributions, was also scrutinised by the Review of Australia's Future Tax System (i.e. the Henry Review). The AFTS review concluded the same way as IPART on high deadweight costs of insurance taxation and similarly to IPART<sup>11</sup>, recommended that “*all specific taxes on insurance products, including the fire services levy, should be abolished. Insurance products should be treated like most other services consumed within Australia and be subject to only one broad based tax on consumption*”.<sup>12</sup>

## **The costs of mobile radio services and their implications for insurance contributions**

Regrettably, the insurance industry is not in receipt of information as to the breakdown of costs associated with their contributions payable. Insurance companies receive from Emergency Management NSW (acting as the leading coordinating agency for all NSW Emergency Service providers) what are known as Annual Assessment notices which set out, in aggregate terms only, the annual budget for emergency services and accordingly, the aggregate statutory contributions for the insurance sector. These Assessment Notices do not outline the breakdown of costs for the emergency service providers so accordingly, information on these costs can only be reasonably secured through mainstream public sources such as agency annual reports.

In that regard, the cost of mobile radio services is not well reported or transparent. For example, the 2009/10 Annual Report of the NSW Fire Brigades reports that the cost of all communications to the Fire Brigades to be a little under \$6million compared to an employee cost of \$474.3 million and other costs totalling around \$70 million. In the case of the NSW Rural Fire Services, communications expenses are not reported in isolation, although costs other than employee expenses amounted to a little under \$20 million. SES non employee costs were \$19 million in 2009/10.

The ICA would welcome any measure recommended by IPART that improved the level of transparency and disclosure of emergency service provider costs and insurer contribution breakdowns. The ICA contends that this reform can be easily achieved by improving the disclosure in the Annual Assessment Notices provided by Emergency Management NSW.

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<sup>8</sup> See IPART, “*Review of State Taxation: Draft Report*” (June, 2008) at pages 65 -67.

<sup>9</sup> See IPART “*Op Cit*” at page 65

<sup>10</sup> See IPART “*Review of State Taxation: Final Report*” (October, 2008) at page 9.

<sup>11</sup> The AFTS Review found the deadweight costs of insurance taxes to be 67 cents for every dollar of revenue raised. See Review of Australia's Future Tax System “*Part One: Overview*” (December, 2009) at page 13.

<sup>12</sup> See AFTS “*Part Two: Detailed Analysis: Volume 2*” at page 475.

### **Implications & policy pathway**

As outlined above, the ICA submits that the fundamental consideration with respect to the cost of government mobile service and its implications for emergency service statutory contributors rests with the approach to funding NSW emergency services itself. The ICA submits that proposals to reform government radio pricing that lead to price increases will, based on current budget historical growth patterns, be passed through as higher contributions for insurers. The ICA, while not opposed to reform of radio pricing (and improvement to emergency service operations more generally) respectively suggests that the current statutory contributions system does not serve to ensure that such pricing adjustments are not absorbed by the service providers as efficiency gains. Indeed, the ICA contends that only reform of the statutory contributions system along the lines suggested by IPART and the Henry Tax Review will ensure government mobile price adjustments are absorbed by the providers according to commercial principles.

With this in mind, the ICA contends that, accompanying any potential IPART recommendation to price government mobile radio services more commercially, that IPART reiterate its recommendation in the State Taxation Review to reform the statutory contribution arrangements as a reform package. In the event that such linkages/conditionality between radio pricing reform and statutory contribution reform can not be accommodated as part of this Review, then the ICA submits that IPART should consider a recommendation that would see the suspension /deferral of any timetable for reforms of government radio pricing until the insurance contributions system is abolished. Finally, the ICA submits that in the transition to reform of statutory contributions and in the interests of transparency and improved disclosure, that the IPART also recommend that the Annual Assessment Notices for contributions issued by Emergency Management NSW include not only the aggregate costs of the emergency service providers but also a detailed breakdown of the costs (including radio pricing) associated with emergency service providers.

### **Conclusion & further information**

In the event that IPART seeks further elaboration on this submission, please refer to Alex Sanchez, General Manager, Economics & Taxation on (02) 9253 5130 or [asanchez@insurancecouncil.com.au](mailto:asanchez@insurancecouncil.com.au)

Yours sincerely



Robert Whelan  
CEO & Executive Director