Reforming the emergency services funding system

Consultation paper

10 April 2024

Acknowledgement of Country

The New South Wales Treasury acknowledges the Traditional Custodians of the lands where we work and live. We celebrate the diversity of Aboriginal peoples and their ongoing cultures and connections to the lands and waters of New South Wales.

We pay our respects to Elders past, present and emerging.

About this consultation paper

Reforming the emergency services funding system

Published by the New South Wales Treasury on behalf of the Hon Daniel Mookhey MLC, Treasurer and the Hon Jihad Dib, MP, Minister for Emergency Services.

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Contents

Foreword

Protecting everyone

Our emergency services protect the lives and property of everyone in NSW.

NSW Treasury projects that the total cost of flood and bushfire to the economy is projected to increase from $7 billion in 2020-21 to up to $24 billion per year by 2070-71, in today's dollars.

Funding our emergency services is always important, and particularly so in this light.

Fair for everyone

The NSW Government believes that funding for emergency services in NSW can be made fairer, simpler, more efficient, and more sustainable.

Taxing only those who take out insurance, and thereby allowing those who are uninsured to avoid paying for emergency services through the Emergency Services Levy, is unfair. Worse, it discourages more people from taking up insurance – which further erodes the foundations of emergency services funding.

A system where everyone whose property is protected by emergency services would make a contribution to those services is not only possible, it is in place in every other mainland Australian state.

Working with everyone

The time has come for NSW to reform the emergency services funding system. But reform requires a clear objective, good faith and respect for all parties who will be affected by change.

The NSW Labor Government has learned from the mistakes of the former government, which did not proceed with its Fire and Emergency Services Levy in 2017.

The consultation process we begin today is designed to make sure that the emergency services funding system delivers the best outcome for everyone involved.

The NSW Government is seeking views from industry and the wider community on the principles for the reform, the revenue base model to be used, and the key design elements and arrangements for the replacement levy.

We encourage you to express your views and feedback on the NSW Government's 'Have Your Say' website.

The Hon Daniel Mookhey MLC
Treasurer

The Hon Jihad Dib MP
Minister for Emergency Services

1 Introduction

On 16 November 2023, the New South Wales (NSW) Government announced its commitment to reform the State's emergency services funding with three key objectives:

1. Reduce insurance costs for households by spreading the levy across all property owners.
2. Protect pensioners and vulnerable members of the community.
3. Ensure a revenue-neutral model that sustainably funds our emergency services agencies.

The current Emergency Services Levy on insurance funds services that benefit everyone but are only paid by some.

The existing Emergency Services Levy increases insurance premiums in NSW by about 18 per cent for residential property and about 34 per cent for commercial property.

The Emergency Services Levy funding requirements for our emergency services increase with climate change and the growing instances of natural disasters, making insurance more unaffordable.

Rising insurance premiums increase the cost of living for households and leads to underinsurance or an increasing number of households left at risk.

With natural disasters becoming more frequent, intense and unpredictable, the need for emergency prevention and response is growing. Finding a sustainable, broad and fair system is vital to ensuring the best emergency services to protect everyone.

The NSW Government has committed to reform the funding of emergency services to resource our fight against the increasing instances of natural disasters, and to more fairly spread the costs among property owners.

This consultation paper is the beginning of public consultations to inform the design, scope, features and transition arrangements of a reformed emergency services levy.

Have your say

The NSW Government would like your views and feedback on any or all of the following questions raised in this consultation paper:

1. Do you agree with the design principles of cost recovery, equity, efficiency, simplicity and sustainability for the replacement levy?
2. Which of the four revenue base models – capital improved values, unimproved land values, gross rental values and a fixed charges model – should be used to design the replacement levy?
3. Which of the current revenue sources for emergency services agencies should be replaced?
4. Should different levy rates be applied to:
   - different property types, such as residential, commercial or farmland, or
   - properties in different locations?
5. What protections are necessary for pensioners and other vulnerable cohorts?
6. How should a levy collected each year reflect changing funding needs for emergency services?
7. Should revenue from a replacement levy be collected by local governments or by the State Government through Revenue NSW?

8. What arrangements should be put in place to ensure that the removal of the current Emergency Services Levy is passed on in lower insurance premiums? How long should the transition take? What other transitional arrangements should be considered for the reform?

To give feedback, you can upload a submission at the NSW Governments 'Have Your Say' website.

Email questions about the consultation paper to the project team at ESFReform@treasury.nsw.gov.au

Submissions are open until 22 May 2024

We prefer submissions in an accessible format. Accessibility is about making documents easy to use for everyone, including people with disability. For more information on how you can make your submission accessible, visit http://webaim.org/techniques/word/

We may publish submissions

We may publish submissions. If you do not want your personal details or any part of your submission published, please say so clearly in your submission. An automatically generated confidentiality statement in your email is not enough.

We may refer to submissions upon the completion of the consultation. We will accept anonymous submissions if you do not want us to publish yours, or if you have concerns about safety or about your submission being linked back to you. We will refer to these in our report as anonymous submissions.

There may be circumstances where the NSW Government is required by law to release the information in your submission. For example, this may be in keeping with the requirements of the *Government Information (Public Access) Act 2009*.

2 Current funding of emergency services in NSW

The three NSW emergency services agencies, funded by the Emergency Services Levy, help NSW residents and businesses when natural disasters and other emergencies occur.

- Fire and Rescue NSW is responsible for the provision of fire, rescue and hazmat services in cities and towns across NSW.
- The NSW Rural Fire Service is responsible for combating bushfires in NSW and leads coordinated bushfire fighting operations across 95 per cent of the State's land mass.
- The NSW State Emergency Service is responsible for responding to flood and storm emergencies in NSW, with a majority of rescue efforts in rural parts of the State.

The funding needed for our emergency services currently comes from insurance companies (73.7 per cent), local councils (11.7 per cent) and the State Government (14.6 per cent).

The NSW Government will remove the Emergency Services Levy currently imposed on insurance, and instead will distribute the levy across a broad base of property owners.

This change recognises that our emergency services agencies serve everyone in NSW, and there is a collective benefit in having these agencies fully funded, well prepared and well resourced.

NSW is the last mainland Australian state to rely on a levy on insurance to fund the cost of their emergency services agencies. Removing the NSW Emergency Services Levy will help insured households and businesses who are managing rising cost of living pressures.

In 2023-24, expenditure for the emergency services agencies is estimated at $2.3 billion. Over the past five years, the costs of emergency services have increased by 42 per cent, or 18 per cent in real terms (see Table 1). The rapidly growing cost of the emergency services agencies is linked to the increasing number of major natural disasters, including due to risks related to climate change.

Table 1: Emergency services agency expenditure from 2018-19 to 2023-24 (nominal $ million)

Agency	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Fire and Rescue NSW	868	909	915	986	1,086	1,107
NSW Rural Fire Service	617	910	630	574	706	808
NSW State Emergency Service	115	142	173	201	255	357
Total	**1,600**	**1,962**	**1,719**	**1,760**	**2,047**	**2,273**

Source: NSW Budget Papers. Expenditure includes both expenses (including depreciation) and capital expenditure. The expenditure for 2023-24 is an estimate. Agency funding requirements do not include depreciation expenses, are net of self generated income, and therefore are lower than expenditure. The 2023-24 funding target for emergency services agencies is $1.9 billion.

An overarching principle of the emergency service funding system reform is that only the revenue required to fund the emergency services is recovered by the new system. An outline of the current NSW funding arrangements for emergency services is in Appendix A.

3 The case for reforming emergency services funding

Placing the Emergency Services Levy on insurance is an unfair, inefficient, and unsustainable way to fund our emergency services. Removing the Emergency Services Levy imposed on insurance and instead distributing the levy across a broad base of property owners could create a fairer system that is cheaper for the majority of people.

The burden of paying for emergency services falls on households, especially those with mortgages

The largest share of funding of the NSW emergency services is provided by people who insure their properties, contents or other goods.

Generally, people who take on a mortgage must pay for property insurance under the conditions in their loan. People who do not insure their properties or other goods do not pay the Emergency Services Levy and make no direct contribution to funding emergency services.

The Emergency Services Levy is generally passed onto policyholders by insurers. It increases the price of insurance by adding to the base premium, and consequently also by increasing the price on which goods and services tax (GST) and stamp duty are levied. Table 2 shows that the Emergency Services Levy has increased the cost of residential property insurance by 18 per cent on average over recent years.

Table 2: How the Emergency Services Levy makes residential property insurance more costly

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average
Percentage increase in premium	21%	17%	18%	21%	15%	17%	18%

Source: NSW Treasury calculations based on aggregated data on insurance premiums and Emergency Services Levy contributions by class of insurance. Estimates include the direct impact of the Emergency Services Levy on insurance premiums and the flow-on impact of the Emergency Services Levy as it increases the GST and stamp duty payable on insurance policies.

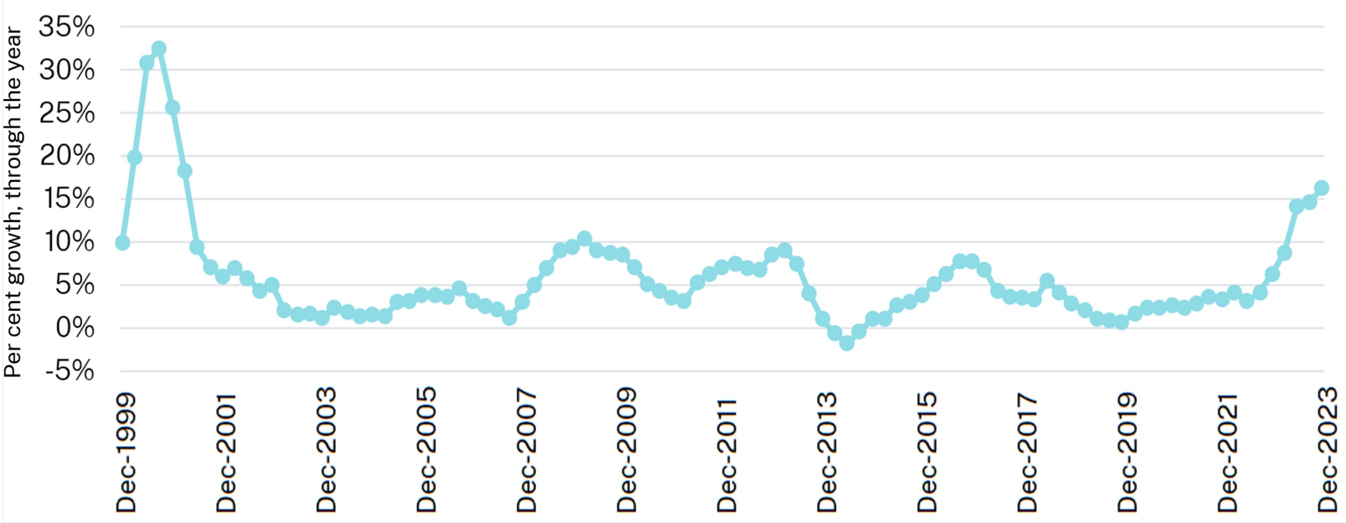
Home insurance premiums in NSW are estimated to be the third highest in Australia, below only cyclone-prone Queensland and the Northern Territory.[1] The current Emergency Services Levy also makes insurance premiums in NSW around 34 per cent higher on average for commercial property than would otherwise be the case.[2]

Insurance costs have been increasing rapidly in Australia over recent years, rising 16.2 per cent through the year to the December quarter 2023 – the strongest annual rise in more than two decades (see Figure 1).

[1] Actuaries Institute, *Home Insurance Affordability Update*, August 2023.

[2] NSW Treasury estimates based on data on insurance premiums and Emergency Services Levy contributions by different classes of insurance. Estimates include the direct impact of the Emergency Services Levy on insurance premiums and the flow-on impact of the Emergency Services Levy as it increases the GST and stamp duty payable on insurance policies. The Emergency Services Levy component of individual insurance policies is likely to vary depending on insurance provider or type of insurance.

Figure 1: Australian insurance costs have grown rapidly in recent years



Source: Australian Bureau of Statistics, Consumer Price Index, Australia, December Quarter 2023.

The higher payment burden raises underinsurance and non-insurance

The latest available *Household Expenditure Survey* from the Australian Bureau of Statistics indicates that 35 per cent of NSW households did not have contents insurance and 5 per cent of homeowners did not have building insurance. Table 3 shows the rates of non-insurance in NSW among different groups of households.

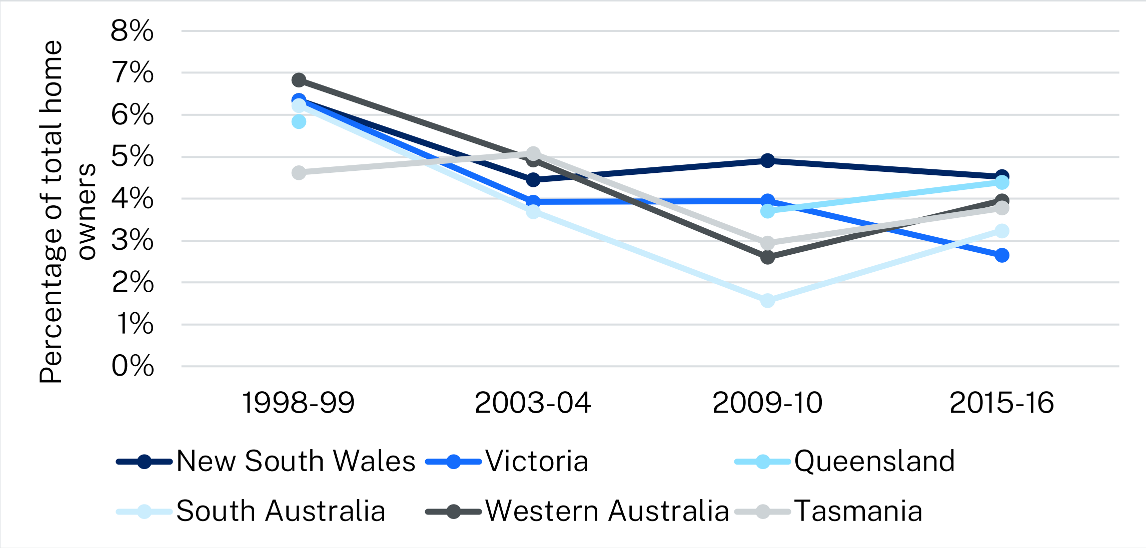
Table 3: Proportions of households in NSW without insurance

Households	Building	Contents
Owner without a mortgage	3.9%	15.6%
Owner with a mortgage	4.7%	16.7%
Total homeowners	4.5%	16.0%
Renter / Other tenure type		75.0%
Total		35.4%

Source: NSW Treasury calculations based on data provided by the Australian Bureau of Statistics, from the 2015-16 *Household Expenditure Survey*. Figures for building insurance are restricted to the set of homeowners who do not pay body corporate fees.

Property owners in NSW have the highest proportion of buildings without insurance and are likely to have the highest level of underinsurance compared with other states (Figure 2).

Figure 2: NSW has the highest proportion of homeowners without building insurance



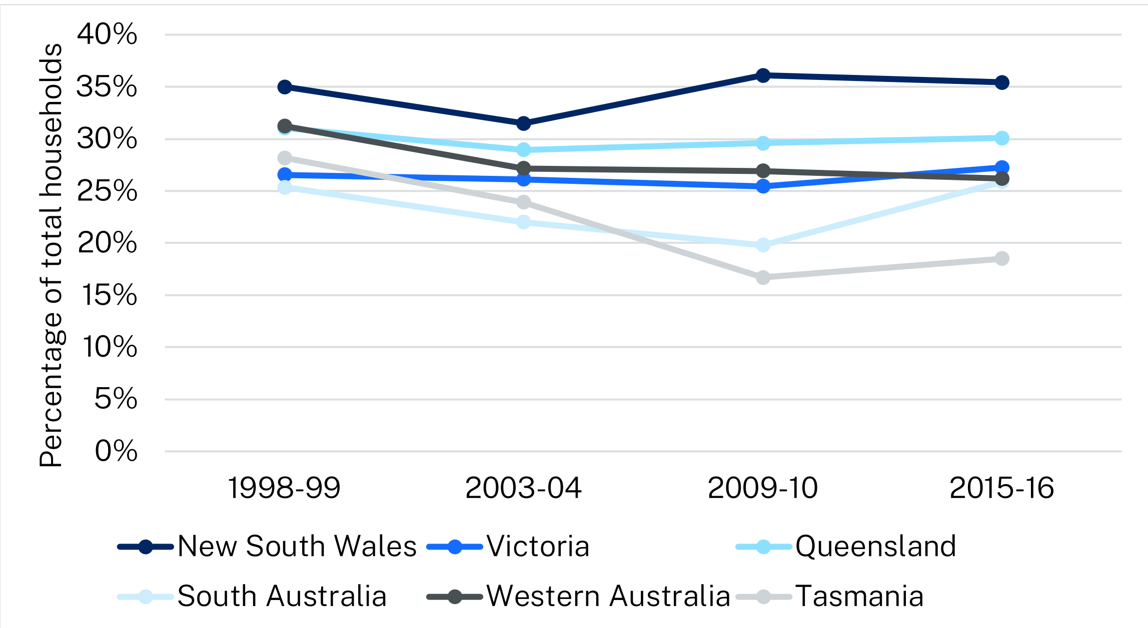
Source: NSW Treasury calculations using data supplied by the Australian Bureau of Statistics, Household Expenditure Surveys. The figures exclude homeowners who pay body corporate fees. Data are not available for Queensland in 2003-04, because of a small sample size.

States that have removed emergency service funding from insurance premiums have seen the proportion of uninsured buildings decrease relative to states that did not reform insurance levies over the same period (Figure 2)):

- In Victoria, the number of property owners choosing not to insure their building declined significantly between 2009-10 and 2015-16. This coincided with the abolition of its insurance-based emergency services levy in 2013-14.
- South Australia and Western Australia abolished their insurance-based emergency services levies in 1999 and 2003 respectively.

Higher insurance costs also affect the amount of insurance households take out on their contents. NSW has persistently had the highest level of non-insurance for household contents across all states (Figure 3).

Figure 3: The proportion of NSW households without contents insurance is higher than any other State



Source: NSW Treasury calculations using data supplied by the Australian Bureau of Statistics, Household Expenditure Surveys.

Small business are victims too

NSW businesses have ranked insurance costs their number one issue in almost every business conditions survey conducted since 2019, including the first quarter of 2024[3].

Small businesses have a lower capacity to self-insure than some large businesses, so high insurance prices can leave many small businesses exposed to risks. A May 2015 survey by the Insurance Council of Australia found 13 per cent of small businesses had no general insurance. Sole traders are often forced to take on more risk, with 24 per cent found to have no insurance.[4]

The pressure on households and businesses will increase unless there is change

The impact of the Emergency Services Levy on insurance costs is compounded by several underlying factors which raise prices.

More frequent and intense climate events increase demand for emergency services

The funding requirements of our emergency services agencies are expected to rise quickly with climate change and increased exposure to climate-related hazards. Without change to the current Emergency Services Levy system, this will further increase the cost of insurance and discourage insurance take-up. As the number of uninsured properties increases, the number of contributors to the emergency services funding is expected to decrease.

NSW Treasury modelling projects the total economic cost of floods and bushfires to rise from $7 billion in 2020-21 to up to $24 billion per year by 2070-71 (in real 2022-23 dollars).[5] This is consistent with other Australian and international estimates that project costs to grow significantly over coming decades. For example, a report prepared by Deloitte Access Economics finds that disasters cost the Australian economy $38 billion per year, on average, and that this cost is projected to rise to at least $73 billion annually by 2060.[6]

Reinsurance costs are high globally making it harder for insurers to finance their policies

More frequent and intense climate change related events are making it more expensive to insure, particularly in areas where flood, fire and storm damage are most likely. Due to increased risks, reinsurance costs are high globally, making it harder for insurers to finance their policies.

Insurance companies around the world are finding it more difficult to access finance. Reinsurance is more difficult to obtain, and willingness to take on risk is low. All these issues can impact the cost of premiums locally. Adding the Emergency Services Levy on top of these cost pressures only exacerbates the problem.

A simpler system will be more transparent

Insurance companies disclose the component of a premium which is linked to their Emergency Services Levy liability for that policy and pass this cost on to consumers. However, the Emergency Services Levy liability calculation is complex. Overall, households and businesses lack visibility on the funding of emergency services and the cost of service provision.

- *Levy-payers* may find it challenging to understand the operation of the Emergency Services Levy due to its complex mechanism.
- *Insurance companies* have to forecast growth in volumes and values of their own policies as well as the market, and then ensure they recover the correct amount of the Emergency Services Levy

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[3] Business NSW, *March 2024 BCS Report*, 2024 and Business NSW, *Insurance at the Speed of Business*, November 2023.

[4] Insurance Council of Australia, *Non-Insurance in the Small to Medium Sized Enterprise Sector*, July 2015.

[5] Flood costs include costs arising from riverine flood only; they do not include those arising from other disasters such as storms, hail, storm surge and earthquakes.

[6] Deloitte Access Economics, *Special report: Update to economic costs of natural disasters in Australia*, Australian Business Roundtable for Disaster Resilience & Safer Communities, 2021.

from policyholders to meet their final contribution amount. These final contribution amounts are only known after the end of each financial year.

The complexity on the insurance side is mirrored in the systems for collecting revenue from councils. Each emergency services agency has different approaches to the allocation of costs between councils.

Previous reviews relating to the Emergency Services Levy

Numerous studies and investigations have provided commentary on how the Emergency Services Levy could be reformed. Three key sources are referenced below, with further details of the findings and recommendations outlined in Appendix B.

NSW Parliamentary Inquiry into Fire and Emergency Services Levy – 2018[7]

The Inquiry provided its findings and recommendations following its examination of the former government's failed implementation of the Fire and Emergency Services Levy (FESL). The Inquiry found that the former government did not have an adequate understanding of the complexities or impacts of the proposed reform. This resulted in the decision to indefinitely defer FESL, causing significant and avoidable costs to councils and the insurance industry.

The Inquiry recommended that, when developing a new levy, a government should:

- ensure that there is appropriate consultation with key stakeholders
- conduct full and transparent modelling of such a levy
- reintroduce an insurance monitor
- consider a range of issues before deciding to implement a new levy.

NSW Federal Financial Relations Review (Thodey Review) – 2020[8]

The Thodey Review found that insurance taxes are *inefficient*, as they raise insurance premiums and disincentivise consumers from insuring adequately. It also found they are *inequitable*, as there seems to be no link between insurance purchase and distribution of benefit from government expenditure on emergency services, creating a 'free-rider' problem.

The Emergency Services Levy in NSW was cited as having the most acute price and policy impacts relating to insurance taxes. These taxes increase the cost of insurance and therefore increase the likelihood that households and businesses choose not to insure or to underinsure. Thus, taxes on insurance increase the risk and exposure of less fortunate members of the community.

A broad-based property levy is much more efficient and equitable, the Thodey Review found. It would make insurance more affordable and ensure that all property owners pay to fund emergency services.

Australia's Future Tax System Review (Henry Review) – 2010[9]

The Henry Review found taxes on insurance add to the cost of insurance premiums and can lead to underinsurance or non-insurance. Low-income households are more likely to abandon insurance in response to higher premiums than high-income households. This can lead lower income households to bear more risk, despite being less well-placed to do so than people with higher incomes.

The Henry Review explicitly stated that fire services levies should be abolished. The review also noted the efficiency of land as a tax base.

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[7] New South Wales Parliament, Legislative Council, Portfolio Committee No. 4 – Legal Affairs, *Fire and Emergency Services Levy*, Sydney, 2018.

[8] NSW Treasury, *NSW Review of Federal Financial Relations – Supporting the road to recovery – Final Report* (David Thodey, chairman), Sydney, 2020.

[9] Henry, K, Harmer, J, Piggott, J, Ridout, H, and Smith, G, *Australia's Future Tax System, Report to the Treasurer*, Australian Treasury, Canberra, 2010.

4 Four revenue base models for emergency services funding

Principles for designing a replacement levy

The NSW Government seeks to design a replacement levy that is right for NSW with its development informed by industry and interested stakeholders in the wider community.

The proposed design principles to guide the reformed levy are:

- **Cost recovery:** Any levy will be set at a level sufficient to fund the cost of emergency services, and only collect the revenue required to replace current funding sources for emergency services.
- **Equity:** A replacement levy would fairly distribute the funding of emergency services across all property owners. A replacement levy can also be considered equitable if property owners in similar circumstances pay the same levy liability (horizontal equity) and property owners with a higher capacity to pay contribute more towards the funding of emergency services than those with a lower capacity to pay (vertical equity).
- **Efficiency:** An efficient levy minimises the unwanted impacts on levy-payers' economic decisions while still raising the required revenue.
- **Simplicity:** A simple and transparent levy is easy to understand, with low compliance costs. A simple levy is also easy to calculate, easy to pay and minimises the time and effort levy-payers need to dedicate to ensure they met their obligations.
- **Sustainability:** There is an ongoing need for the provision of emergency services by the State Government. Given this, any mechanism put in place to fund the emergency services agencies should have the capacity to reliably provide sufficient funds over the long term.

Question 1

Do you agree with the design principles of cost recovery, equity, efficiency, simplicity and sustainability for the replacement levy?

Four revenue base models

The revenue base is what the levy is applied to. This section considers four options: capital improved values, unimproved land values, gross rental values or a fixed charges model. The choice of revenue base model will affect how the burden of the replacement levy is distributed.

Although emergency services respond to motor vehicle call-outs, motor vehicles have not been included as an element of the proposed reform given the relative inefficiency of vehicle taxes as a revenue base. Moreover, as property owners generally own motor vehicles, a levy on property owners can also be considered as indirectly sourced from motor vehicle ownership.

Question 2

Which of the four revenue base models – capital improved values, unimproved land values, gross rental values and a fixed charges model – should be used to design the replacement levy?

4.1 Capital improved values

Capital improved values reflect the market value of the property and include the value of the land and buildings and other improvements. NSW uses capital improved values for transfer duties. But NSW does not keep a database of current capital improved values for any ongoing annual taxes. Developing such a database would require time and involve significant up-front costs. Valuation NSW has estimated that it could take five years to implement a capital improved values revenue base for over 3.5 million properties.

Both Victoria[10] and South Australia[11] fund emergency services through a property levy based on capital improved values with both a fixed and variable component.

4.2 Unimproved land values

Unimproved land values reflect the value of land excluding the value of buildings or other structures and improvements. Land values are estimated regularly by the NSW Valuer General and are based on factors such as:

- the highest and best permitted use of the land based on zoning and planning restrictions
- land size, shape, features, location and views
- comparable sales.

In NSW, land values are used as the base for land tax and council rates.

The Australian Capital Territory uses a five-year average of unimproved (land) values for their rates, land tax and Police, Fire and Emergency Services Levy.[12]

4.3 Gross rental values

Gross rental value is an estimate of the rental income a property could earn if it was rented out for a year. Gross rental values are similar to using a capital improved revenue base, reflecting the market value of a property including both its location and the characteristics of the dwelling, including number of bedrooms and quality of the construction and finishes.

As with a capital improved revenue base, a gross rental value model would require NSW to develop a database of valuations for all properties in the State, with the associated lead time and cost. Gross

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[10] For the Fire Services Property Levy in Victoria, six different variable rates apply to residential, commercial, industrial, primary production, public benefit and non-residential vacant land, and two different fixed charges apply to either residential or non-residential land.

[11] For the Emergency Services Levy in South Australia, levy rates are adjusted for seven land-use categories (residential, commercial, industrial, rural, special community use, vacant and other) and four location categories.

[12] For the Police, Fire and Emergency Services Levy in the Australian Capital Territory, a fixed and variable charge is applied to all properties, with different variable charges applying to residential, commercial and rural properties.

rental values would have to be estimated across all properties, even for those which have never been rented out.

Western Australia[13] and Tasmania[14] use gross rental values as a property levy revenue base to raise revenue to contribute towards part of the cost of their emergency services.

4.4 Fixed charges model

A levy set as a percentage of any of the three revenue bases above could lead to a relatively wide variation in levies across properties. An alternative model that would reduce the variation in levy amounts could be based on a set of fixed charges. A tiered schedule of fixed charges would have properties with the lowest land values paying the smallest fixed charge, and properties with higher land values paying a higher fixed charge.

A revenue base model using only fixed charges could include different charges depending on:

- land use categories, such as residential, commercial, industrial and farmland, and
- the level of emergency services available (for instance, areas where the costs of services per property are higher could pay the highest levies).

All states and the Australian Capital Territory fund their emergency services using an element of fixed charge. Queensland alone uses only fixed charges and does not differentiate based on property values, land values or gross rental values. In Queensland, a fixed charge is applied to all properties based on their land use category (segregated into 16 groups) and level of fire services available (segregated into five classes).[15]

[13] For the Emergency Services Levy in Western Australia, levy rates are adjusted for five location categories (metropolitan, metropolitan fringe, regional cities, country towns and rural areas) with a minimum and maximum levy based on land use categories (single residential, multiple residential, farming, commercial, industrial, vacant land).

[14] The Fires Services Contribution in Tasmania is based on the assessed annual value of a property, which is the estimated yearly rental value of the property.

[15] Each property is categorised into 16 levy groups, with Group 1 including largely vacant land, Group 2 residential property and Groups 3 to 16 different types of commercial and industrial properties by size and risk factor.

5 Other design elements for the reform

5.1 Replacing existing revenue sources

Question 3

Which of the current revenue sources for emergency services agencies should be replaced?

The Government remains committed that reforms to the Emergency Services Levy will be revenue neutral.

A levy that replaces insurance contributions would collect 81 per cent of the current funding cost of the emergency services agencies. The current Emergency Services Levy on insurers collects 73.7 per cent, and the associated insurance stamp duty provides a further 7.3 per cent through State Government general revenue.

The other revenue sources that currently fund the emergency services agencies are the 11.7 per cent from local government contributions and the additional 7.3 per cent from State Government general revenue that is distinct from the Emergency Services Levy associated stamp duty. The State Government contribution totals 14.6 per cent of emergency services funding consisting of the 7.3 per cent from Emergency Services Levy associated insurance stamp duty and 7.3 per cent from other general revenue sources.

For example, the emergency services agencies are estimated to require contributions of $1.9 billion to fund their operations in 2023-24.

- $1.4 billion, covering the Emergency Services Levy on the portion of insurance premiums that is attributable to the Emergency Services Levy (73.7 per cent)
- $220 million, from council contributions (11.7 per cent)
- $280 million, the State Government contribution (14.6 per cent).

Council contributions to emergency services funding further complicate the current funding system. Transitioning these contributions into the replacement levy could make the system much simpler.

According to analysis by the Actuaries Institute, removing the Emergency Services Levy from insurance policies could reduce insurance costs of a typical fully-insured home by $387 per year.[16]

[16] Actuaries Institute, *Home Insurance Affordability Update*, August 2023. This is a technical estimate of the cost of insurance and can differ from the actual premiums households pay.

5.2 Different levy rates for different property types and locations

Question 4

Should different levy rates be applied to:

- different property types, such as residential, commercial and farmland, or
- properties in different locations?

Residential, commercial and farmland

The replacement levy could be structured such that all properties with a common value (unimproved land value, capital improved value or gross rental value) incur the same levy liability. Alternatively, the replacement levy could apply different levy rates to different classes of property (for example, residential, commercial and farmland).

Currently, the insurance-based Emergency Services Levy results in a higher markup on insurance for commercial properties than for residential properties. These markups reflect insurers' assessment of the capacity of different customer types to absorb different insurance costs, including income tax deductibility of premiums.

Geographic zones

Some states have adopted a funding model in which the burden of the levy depends on the location of the property. Such an approach seeks to align the levy burden more closely with the cost of services provided.

5.3 Protecting certain households

Question 5

What protections are necessary for pensioners and other vulnerable cohorts?

The NSW Government is committed to developing protections that will reduce the impact of the replacement levy on certain groups, such as pensioners and other vulnerable groups . Currently, all states and territories with a levy to fund emergency services provide concessions for certain groups, such as pensioners.

Consideration could be given to providing concessions to asset-rich but income-poor groups such as pensioners. Concessions for these groups could be structured as:

- discounts on levy payments; or
- an ability to defer levy payments, with interest accruing in the deferral period.

More broadly, reform could include a hardship scheme for people who cannot make levy payments after meeting basic living expenses. Such a scheme could support not just households but also small businesses.

5.4 Determining the annual revenue target

Question 6

How should a levy collected each year reflect changing funding needs for emergency services?

A key design principle for the reform is cost recovery: the NSW Government should raise only the revenue needed to fund the State's emergency services.

Levy rates could be set each year to match the funding requirement of the emergency services agencies. Under such an approach, levy rates would be adjusted each year in line with changes in the expenditure of the emergency services agencies.

Alternatively, funding could be tied to historical funding requirements, or an average of the funding requirements over time.

Any misalignment between the revenue collected and the funding required in a given year could be adjusted in subsequent years to ensure that over the medium term, revenue collected aligns with the funding required.

5.5 Collecting the levy

Question 7

Should revenue from a replacement levy be collected by local governments or by the State Government through Revenue NSW?

Local governments collect council rates, which are levied on unimproved land values. Councils have established systems for billing, collecting rates, and collecting debts. Local governments could include a notice of a replacement levy assessment as part of their council rates assessment notices.

The 128 councils in NSW use a range of different software and platforms. Changing these systems to deal with a replacement levy – and then training staff on the changes – may add cost and complexity first to the transition, and then to the levy's ongoing administration.

Revenue NSW is the State's primary revenue collection and debt recovery agency. It could collect a levy using one integrated system to issue levy bills and refer to debt recovery when required. The implementation and ongoing operations may be simpler without the need to coordinate and conduct assurance activities with 128 councils.

5.6 Transitional arrangements and monitoring of insurance prices

Question 8

What arrangements should be put in place to ensure that the removal of the current Emergency Services Levy is passed on in lower insurance premiums? How long should the transition take? What other transitional arrangements should be considered for the reform?

Smooth transition

Removing the current Emergency Services Levy on insurance should reduce property insurance premiums significantly. Given this, it is important that the reduction in insurance premiums does not happen in a way that encourages policy holders to delay renewals of their insurance and risk being uninsured until the Emergency Services Levy is removed.

In addition, there is a risk that some insured property owners could face paying the Emergency Services Levy on their insurance policy and then a replacement levy shortly thereafter.

Insurance companies and the NSW Government should work to design a transition away from the current system to avoid creating incentives to delay the purchase of insurance and to ensure the equitable treatment of individual property owners without passing the cost on.

Monitoring the insurance market

To address concerns that insurance companies would not fully pass on the benefit of removing the Emergency Services Levy to consumers, the NSW Government will establish an insurance monitor. The NSW Government will provide an avenue for seeking further information about the removal of the Emergency Services Levy and the savings that should be passed on and will help deal with individual complaints on specific insurance policies.

While the removal of the Emergency Services Levy is a significant aspect of this reform, the NSW Government also wants to hear feedback on other transitional arrangements that should be considered as part of the reform. These could include the period of transition, and any arrangements that may need consideration if council contributions are to be replaced by the levy.

Appendix A: Current funding arrangements

Funding for Fire and Rescue NSW, the NSW Rural Fire Service and the NSW State Emergency Service is determined each year by the Minister for Emergency Services in consultation with the Treasurer for the following financial year. The funding target is adjusted to compensate for deficits and surpluses in the previous financial years.

Under legislation, insurers contribute 73.7 per cent of the required revenue, local government contributes 11.7 per cent, and the State Government contributes the remainder. In 2023-24, the total funding target for the three agencies was $1.9 billion, with insurers contributing $1.4 billion through the Emergency Services Levy, councils contributing $220 million and the State Government contributing the remaining $280 million.

Insurance contributions

The *Emergency Services Levy Act 2017* requires insurers to pay a contribution – the Emergency Services Levy – in respect of premiums for relevant classes of insurance. The Act also sets out the methods of assessment and calculation for these contributions.

The Emergency Services Levy on individual insurance companies is calculated based on their market shares of particular types of insurance.

Insurance companies generally recover their contributions by imposing a surcharge on policy holders' premiums. The surcharge is usually described as Emergency Services Levy on insurance policies. Both GST and stamp duty are then charged on the sum of the base premium and the Emergency Services Levy.

The Emergency Services Levy not only directly increases the price of insurance by adding to the base premium, but also increases the amount payable in GST and stamp duty. Table 4 below shows the impact of the Emergency Services Levy on the cost of residential and commercial property insurance over recent years.

Table 4: Impact of Emergency Services Levy on insurance premiums

Type of insurance	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average
Commercial property insurance	33%	37%	35%	38%	31%	31%	34%
Residential property insurance	21%	17%	18%	21%	15%	17%	18%

Source: NSW Treasury calculations of the percentage increase in premium based on aggregated data on insurance premiums and Emergency Services Levy contributions by class of insurance. Estimates include the direct impact of the Emergency Services Levy on insurance premiums and the flow-on impact of the Emergency Services Levy as it increases the GST and stamp duty payable on insurance policies.

Local government contributions

Local council contributions provide 11.7 per cent of the Funding Target for the three emergency services agencies. For each of the three emergency service agencies, a different methodology is used to determine the amount to be contributed by individual local governments, according with provisions in each respective Act.

For Fire and Rescue NSW, the basic principle is that each local government area makes a contribution based on the cost of the fire and rescue service provided within its area:

- Fire and Rescue NSW estimates its spending in each local government area (LGA).
- Spending for the Greater Sydney area is allocated to local councils based on the previous five-year average land values.
- Spending for regional areas is allocated to local councils based on the previous year's portion.

- Each year, adjustments are made to reflect changes such as new fire stations, changes in fire station permanent staffing, and boundary changes between councils.

In some areas, multiple LGAs are grouped into a single fire district. These include the Sydney, Lower Hunter and Newcastle Fire Districts. In these fire districts, each individual council's contribution to the fire district estimated expenditure is based on the value of rateable land in the respective LGA. The apportionment of contributions is determined by the five-year rolling average of aggregate land values in each LGA, as advised by the NSW Valuer General.

For the NSW Rural Fire Service, each relevant council's contribution is based on their historic 20-year average share of expenditure, which reflects the cost of services provided within each council's area. The NSW Rural Fire Service does not operate in the urban core of Sydney but covers large parts of the Greater Sydney area.

In the case of the NSW State Emergency Service, each local government's contribution is based on its population.

Appendix B: Previous reviews relating to emergency services funding

NSW Parliamentary Inquiry into Fire and Emergency Services Levy – 2018

The Parliamentary Inquiry into the Fire and Emergency Services Levy (FESL) produced the following findings and recommendations.

Finding 1

That the failed implementation of the FESL was a poor public policy decision, undertaken without adequate understanding of the complexities of the issue or the impacts of the proposed reforms.

Finding 2

The failed implementation and late deferral of the FESL has caused significant and avoidable costs to local government and the insurance industry.

Recommendation 1

That the NSW Government provide greater oversight and accountability to ensure that the budgets for fire and emergency services agencies are appropriate.

Recommendation 2

That NSW Treasury continue to work to minimise the number of 'known unknowns' and conduct a full, and transparent re-modelling of any new emergency services funding levy.

Recommendation 3

That the NSW Government consider making Revenue NSW responsible for administering any new emergency services funding levy.

Recommendation 4

That no future NSW Government should move to implement a new emergency services funding levy unless it considers:

- use of capital improved value of land for calculation of levy
- differential levy rates, fixed charges, discounts and caps
- better aligned land classifications between council and the levy
- inclusion of motor vehicles
- the removal of the 11.7 per cent contribution by councils
- addressing the impact of the levy on lower socio-economic households which are currently unable to afford building and contents insurance.

Recommendation 5

That the NSW Government ensure appropriate consultation with key stakeholders during the development or re-modelling of any new levy.

Recommendation 6

That the NSW Government revisit the role and funding arrangements for the Emergency Services Levy Insurance Monitor to ensure that, if the FESL is re-introduced, the Monitor's role continues past June 2020.

NSW Federal Financial Relations Review (Thodey Review) – 2020

The Thodey Review made the following recommendations.

> *Recommendation 10: "All specific taxes on insurance products, including the Emergency Services Levy in New South Wales, should be abolished and replaced by more efficient and broad tax bases, to improve the affordability and uptake of insurance."*
>
> *Recommendation 11: "To reduce the cost of insurance and enable fairer ways to fund the fire and emergency services, the Government should reconsider applying a levy on property owners and should also consider combining this with any future broad-based land tax. The reform should follow a detailed consultation and modelling process to carefully consider the impacts on different taxpayers."*

Australia's Future Tax System Review (Henry Review) – 2010

The Henry Review conducted for the Australian Government made the following findings on insurance taxes:

> *"Australia has high taxes on insurance, both in comparison to other countries and to the way that other products and industries are taxed. Specific taxes on insurance add to the cost of insurance premiums and can lead to underinsurance or non-insurance."*
>
> *"Low-income earners are more likely than high-income earners to abandon insurance in response to higher premiums. The result is that they bear more risk themselves, although they are less well-placed to do so than people with higher incomes."*

Recommendation 79 of the Henry Review stated 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."*

The Henry Review also noted the efficiency of land as a tax base:

> *"Land has the potential to be an efficient tax base for the States capable of delivering significant and sustainable revenues. Land is an efficient tax base because it is immobile; unlike labour or capital, it cannot move to escape tax. This means that economic growth would be higher if governments raised more revenue from land and less revenue from other tax bases. However, this efficiency is harmed if there are significant exemptions from land tax that encourage people to change how they use land."*

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