Funding our emergency services
A Discussion Paper July 2012

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NSW Government

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The purpose of this Discussion Paper is to seek public consultation on how our emergency services should be funded. The NSW Government believes that options exist for funding mechanisms which are fairer, more transparent and accountable than the current arrangements. The Government is committed to maintaining current funding levels.

You can read this discussion paper and give your input at the Have Your Say website.

To have your say, visit www.haveyoursay.nsw.gov.au, select Emergency Services Funding 2012 and provide your feedback online, by 8 October 2012.
Foreword

The fire and emergency services of NSW—including Fire and Rescue NSW, the NSW Rural Fire Service and the NSW State Emergency Service—have a proud and long history of helping the people of NSW. Our emergency services are critical to protecting and preserving the lives and properties of citizens from structural fires, bushfires, storms, floods, transport accidents and other emergencies.

However, the way we currently fund emergency services in NSW is complicated, inefficient and unfair. The bulk of funding (73.7 per cent) is provided by a tax on insurance companies, while the remainder of the funds are provided by local governments (11.7 per cent) and the State Government (14.6 per cent).

While emergency services work to prevent or limit physical damage, the current funding system provides disincentives to prepare for the financial consequences of fire and emergencies. The tax on insurers increases the price of insurance, leading some people to under-insure and others not to insure at all.

Thirty-six per cent of households in NSW do not have home contents insurance, a higher proportion than in any other State. This makes the current system unfair because not everyone contributes through the tax on insurance; however, the fire and emergency services are available for all. A better and fairer system would spread the costs across the whole community.

Recent reviews of the State tax system, including the Henry Tax Review, have recognised the weaknesses of the current system and recommended that it be replaced with a property based levy.

During the 2011 State election, the Liberal and Nationals Coalition committed to consulting with the community to identify a better way to fund emergency services in NSW. A wide range of alternative revenue sources have been considered, and it is apparent that if the current arrangements are changed, a property based levy would be the best alternative.

This process is to develop a better, fairer and more efficient way of funding our emergency services.

No final decision has been made by the Government, which is now seeking your input on the design, scope, features and transition arrangements to a new levy. Whatever arrangements are used, they will not alter the total level of funds provided for fire and emergency services.

The NSW Government is strongly committed to consulting with the community, emergency services, local government and industry to move to a simpler, fairer and more competitive system. We encourage you to make a submission at www.haveyoursay.nsw.gov.au/ESL.
Overview

A vital community service

New South Wales’ fire and emergency services include Fire and Rescue NSW (FRNSW), the NSW Rural Fire Service (NSW RFS) and the NSW State Emergency Service (NSW SES).

Around the State, every four minutes FRNSW responds to a fire or emergency call, with a total of 130,979 responses in 2010-11. More than 70,000 people volunteer for the NSW RFS, responding to over 18,000 incidents in 2010-11. With a large increase in flood-related activities, the NSW SES received 20,690 requests for assistance in 2010-11, and around 10,000 NSW SES volunteers provided around 550,000 hours of service.

The budgets of fire and emergency services are currently funded by the insurance industry, local governments and the State Government. The insurance industry is required to contribute 73.7 per cent; local governments contribute 11.7 per cent and the State Government contributes 14.6 per cent from consolidated revenue. The total amount of funding is determined through Budget processes each year, based on the costs of these services.

The combined contributions from local government and the insurance industry are referred to in this document as the Emergency Services Levy (ESL). As one of the costs faced by local governments, the ESL contributes to higher local government rates and charges. For the insurance industry the ESL is allocated between individual companies in proportion to their market shares of certain types of insurance. In turn, the insurance companies pass on their shares of the ESL to their customers in the form of higher premiums.

This discussion paper has been prepared to invite community comment on alternative options for collecting the necessary funds.

Why we need this review

The Henry Tax Review (Australia’s Future Tax System) and the NSW Independent Pricing and Regulatory Tribunal’s review of State taxes both concluded that taxes on insurance should be removed.

During the 2011 State election, the Liberal and Nationals Coalition committed to reviewing the funding model for emergency services. Reviewing the sources of funding has no implications for the overall level of funding of over $1 billion per annum for emergency services.

The current system for funding the emergency services has a number of serious weaknesses, as it is:

- Inefficient and discourages people taking out insurance
- Unfair as the ESL is only paid by people with insurance
- Out of step with practice in other States.

Taxing insurance may lead to non-insurance and under-insurance. Insurance helps people deal with the inevitable consequences of fires, floods and other emergencies. The tax system should not discourage people from protecting their assets by adding additional costs to the system.

The current system is also unfair. People who are not insured or are under-insured...
do not contribute, or fully contribute, to the ESL and the majority of the costs of emergency services, but nevertheless receive the same coverage as those who are insured. New South Wales has a higher rate of non-insurance when compared to the other States. Only around 64 per cent of NSW households had contents insurance in 2009-10, compared to 74 per cent in the rest of Australia. The ESL should be spread across all households.

Most States and Territories have stopped taxing insurance to fund their fire and emergency services. Victoria is shifting to a property based levy in 2013 and Tasmania funds only 30% of its fire and emergency service costs with an insurance tax. Table 1 summarises the current funding arrangements in the various States.

Benefits of removing taxes on insurance

A property based levy offers potential improvements in how revenue for emergency services is collected. Property owners benefit from the provision of emergency services, whereas insurers are actually in the business of managing risks. A property based levy could be fairer and more transparent as all households and businesses in the State would contribute to the cost of emergency services.

A property based levy is also a more efficient source of revenue, imposing a much lower economic cost than a tax on insurance. Taxing insurance reduces the value of insurance services bought, whereas a well-designed levy on land values does not affect the value of the State’s production.

A range of options

There are a range of options for how a replacement property levy could be calculated across property classes (i.e. residential land, commercial land, or rural land) and between different parts of New South Wales. Households and businesses that currently purchase insurance would benefit from the removal of the emergency services levy, but the final outcome for households and businesses would depend on their circumstances, including the combined effect of reductions in insurance costs and the incidence of a property levy.

In choosing between different schemes, there are trade-offs between complexity and efficiency, and the financial impacts on different households and businesses.

Table 1: Current funding arrangements by State

<table>
<thead>
<tr>
<th>State</th>
<th>Contribution details</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>Levy on insurance companies (74 per cent), contributions from local government and consolidated revenue.</td>
</tr>
<tr>
<td>Victoria</td>
<td>Levy on insurance companies (75 to 77.5 per cent), local government contributions and consolidated revenue. Has announced a move to a property based levy.</td>
</tr>
<tr>
<td>Queensland</td>
<td>Property based levy that is collected through local government authorities. The levy varies according to property type and location.</td>
</tr>
<tr>
<td>Western Australia</td>
<td>Property based levy collected by the local government authorities. The levy rates vary by property type and by region.</td>
</tr>
<tr>
<td>South Australia</td>
<td>Property based levy comprising a fixed fee plus a variable levy based on capital value adjusted for location and land use. A levy is also collected on mobile property such as motor vehicles.</td>
</tr>
<tr>
<td>Tasmania</td>
<td>Contributions from local government, insurance companies (30 per cent) and motor vehicle registration.</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>Property based levy on residential property (fixed) and commercial property (based on unimproved land value).</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>Funded from consolidated revenue.</td>
</tr>
</tbody>
</table>

1: Funding arrangements in other States are set out in Appendix iii
Questions

Key questions we’d like your input on

This discussion paper seeks comments from all interested parties on where the lines should be drawn in making these trade-offs. It provides background information to inform the debate, and raises the following questions for public discussion:

1. Which of the following revenue sources associated with emergency services funding should be replaced by a property levy:
   a. The emergency services levy payments by insurers and the associated stamp duty;
   b. Local government contributions; or
   c. The portion of emergency services funding currently provided from general NSW government revenue?

2. Should a property levy be raised as a fixed amount per property, as a proportion or percentage of property value, or some combination of the two?

3. Should different rates of tax be applied to different property types?

4. Should different tax rates be applied in different parts of the State? If revenue amounts are zoned geographically, where should the boundaries of those zones be?

5. Should some proportion of emergency services funding be raised as an annual charge on vehicle registration?

6. Should pensioners receive concessional rates for a new property levy that funds emergency services?

7. How should the revenue target be set each year to take account of changing costs of fire and emergency services?

8. Should revenue from a land-based levy be collected by local governments or the Office of State Revenue?

9. Is a transitional period required for adjustment of the emergency services levy, and if so how should any funding gap arising from a transitional period be recovered?

10. What arrangements are needed to ensure that any reductions in insurance taxes are passed on to consumers?

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Comments are sought by 8 October 2012, and should be provided through the e-portal at http://haveyoursay.nsw.gov.au/ESL. The Government will assess all submissions received, before making a final decision towards the end of 2012. If a new funding system is adopted, the decision is expected to include the nature of any replacement revenue sources, and a timetable for any transitional arrangements.
1 HOW FIRE AND EMERGENCY SERVICES HELP THE PEOPLE OF NSW

1.1 THE FIRE AND EMERGENCY SERVICES

Fire and Rescue NSW

Fire and Rescue NSW (FRNSW) is the State Government agency responsible for the provision of fire, rescue and hazmat services in cities and towns across New South Wales in accordance with the Fire Brigades Act (1989). FRNSW, formerly known as NSW Fire Brigades, was established in 1910. It is a key agency involved in the response phase of most emergency or disaster events. It is one of the world’s largest urban fire and rescue services and is the busiest in Australia.

FRNSW’s overriding purpose is to enhance community safety, quality of life, and confidence by minimising the impact of hazards and emergency incidents on the people, property, environment and economy of NSW.

FRNSW employs almost 7,000 full time and part time firefighters across NSW. FRNSW also employs around 400 administration and trades staff who support frontline firefighters by providing a range of support functions including human resources, finance and administration, fleet, asset and property maintenance, training and professional development.

FRNSW officers provide rapid, reliable help in emergencies, 24 hours a day, seven days a week. Each year, firefighters respond to a wide range of emergencies including vehicle, rubbish, bush and building fires; motor vehicle, industrial and domestic rescues, and incidents involving hazardous materials. They also provide assistance following severe weather events such as storms and floods, and provide emergency medical response in a small number of areas. FRNSW also has a key role in relation to terrorism incident consequence management. In 2010-11, FRNSW responded to 130,979 emergency calls - an average of one call every four minutes.

Table 2: Number and type of incidents attended by FRNSW

<table>
<thead>
<tr>
<th></th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fires and explosions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure fires</td>
<td>7718</td>
<td>7723</td>
<td>7447</td>
<td>7493</td>
<td>7009</td>
</tr>
<tr>
<td>Outside storage fires</td>
<td>359</td>
<td>323</td>
<td>289</td>
<td>303</td>
<td>257</td>
</tr>
<tr>
<td>Vehicle fires</td>
<td>4933</td>
<td>4479</td>
<td>4384</td>
<td>4202</td>
<td>3974</td>
</tr>
<tr>
<td>Bush and grass fires</td>
<td>10911</td>
<td>9120</td>
<td>9915</td>
<td>9901</td>
<td>6903</td>
</tr>
<tr>
<td>Rubbish fires</td>
<td>8979</td>
<td>9551</td>
<td>9627</td>
<td>8917</td>
<td>7949</td>
</tr>
<tr>
<td>Other fires</td>
<td>241</td>
<td>431</td>
<td>264</td>
<td>214</td>
<td>350</td>
</tr>
<tr>
<td>Total fires and explosions</td>
<td>33141</td>
<td>31627</td>
<td>31926</td>
<td>31030</td>
<td>26472</td>
</tr>
<tr>
<td>Other emergencies and incidents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-fire rescue calls:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicle accidents involving extrication of victims</td>
<td>4887</td>
<td>4683</td>
<td>4905</td>
<td>5104</td>
<td>4958</td>
</tr>
<tr>
<td>Other non-fire rescues including industrial and home rescues</td>
<td>1818</td>
<td>1821</td>
<td>2509</td>
<td>2623</td>
<td>2781</td>
</tr>
<tr>
<td>Medical assistance</td>
<td>504</td>
<td>577</td>
<td>796</td>
<td>925</td>
<td>1030</td>
</tr>
<tr>
<td>Animal rescues</td>
<td>947</td>
<td>1136</td>
<td>1411</td>
<td>2058</td>
<td>2050</td>
</tr>
<tr>
<td>Total</td>
<td>8156</td>
<td>8217</td>
<td>9621</td>
<td>10710</td>
<td>10819</td>
</tr>
<tr>
<td>Hazardous materials</td>
<td>17050</td>
<td>16258</td>
<td>16474</td>
<td>15224</td>
<td>15483</td>
</tr>
<tr>
<td>Storm, floods and other natural disasters, animal rescues and assistance for other agencies</td>
<td>6064</td>
<td>5535</td>
<td>5738</td>
<td>6086</td>
<td>6420</td>
</tr>
<tr>
<td>Good intent calls</td>
<td>10680</td>
<td>10554</td>
<td>10739</td>
<td>11099</td>
<td>10797</td>
</tr>
<tr>
<td>Malicious false calls</td>
<td>4802</td>
<td>4092</td>
<td>3553</td>
<td>3060</td>
<td>2553</td>
</tr>
<tr>
<td>System-initiated false alarms (^2)</td>
<td>53454</td>
<td>54206</td>
<td>53805</td>
<td>52645</td>
<td>52485</td>
</tr>
<tr>
<td>Other</td>
<td>4659</td>
<td>4390</td>
<td>5443</td>
<td>5421</td>
<td>5950</td>
</tr>
<tr>
<td>Total other emergencies and incidents</td>
<td>104865</td>
<td>103252</td>
<td>105373</td>
<td>104245</td>
<td>104507</td>
</tr>
<tr>
<td>Total fires, explosions and other emergencies</td>
<td>138006</td>
<td>134879</td>
<td>137299</td>
<td>135275</td>
<td>130979</td>
</tr>
</tbody>
</table>

\(^2\) Buildings prescribed under the Building Code of Australia or by local council are required to be monitored by an approved automatic fire alarm service provider. A charge of $750 is levied for false alarms of monitored systems that are due to the activities of the occupier or could have reasonably been prevented.
NSW RURAL FIRE SERVICE

The NSW Rural Fire Service (RFS) is the largest fire service in the world with over 70,000 well trained volunteer rural fire fighters attached to more than 2,000 brigades throughout the State.

The principal responsibility of the Service is to provide fire protection to communities across 99 per cent of the State’s land mass and to co-ordinate bushfire fighting operations where necessary in accordance with the provisions of the Rural Fires Act, 1987.

The NSW RFS is the lead agency for combating bushfire in New South Wales and leads coordinated bushfire fighting, including the provision of public awareness initiatives, community engagement and bushfire risk management programs, such as development assessment and planning, as well as hazard reduction. The NSW RFS also plays a critical role in supporting other agencies during emergencies and other incidents.

NSW RFS volunteers are supported by 920 staff who, among other things, manage the day-to-day operations of the Service at State HQ, Regional Offices and District Fire Control Centres, and who undertake significant bushfire hazard reduction works.

In 2010-11 the NSW RFS attended 18,830 incidents.

<table>
<thead>
<tr>
<th>Table 3: Incidents attended by NSW Rural Fire Service</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of incidents attended</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Bushfires</td>
</tr>
<tr>
<td>Grass fires</td>
</tr>
<tr>
<td>Building fires</td>
</tr>
<tr>
<td>Vehicle fires</td>
</tr>
<tr>
<td>Motor vehicle accidents</td>
</tr>
<tr>
<td>False alarms</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Controlled burns</td>
</tr>
<tr>
<td>Smoke scare</td>
</tr>
<tr>
<td>Refuse fires</td>
</tr>
<tr>
<td>Oil spills</td>
</tr>
<tr>
<td>Assist other agencies</td>
</tr>
<tr>
<td>Flood</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
NSW STATE EMERGENCY SERVICE

The NSW State Emergency Service (NSW SES) is the lead agency in the response to floods, storms and tsunamis in NSW. The NSW SES also supports other emergency services in times of natural and man-made disasters and is committed to building safer and more resilient communities.

The NSW SES was formed in April 1955 following the disastrous floods across NSW that tragically caused considerable loss of life and massive damage to property. It consists of approximately 10,000 volunteers, 250 salaried staff and 228 units.

NSW SES volunteers are renowned for their capacity to respond outside of their identified unit and region boundaries to assist every community throughout NSW. As a result of this capacity, the NSW SES is now frequently called upon to respond interstate to assist its counterparts and communities in need.

The Service’s core roles relate to community preparedness, prevention, emergency response for and recovery from floods, storms and tsunami. NSW SES volunteers also provide rescue services (including road crash and vertical rescues), first aid and other vital services in emergencies.

Note: Further information on the fire and emergency services is provided at appendix i.
1.2 COST OF FIRE AND EMERGENCY SERVICES

Table 4 sets out the estimated expenditure of the fire and emergency services in 2012-13. FRNSW accounts for 63 per cent of budgeted expenditure. While the NSW RFS and NSW SES rely heavily on volunteers, they also have funded staff, operating costs and capital expenditures such as firefighting and emergency equipment and supplies.

Table 4: Expenditure in 2012-13 ($ million)

<table>
<thead>
<tr>
<th></th>
<th>FRNSW</th>
<th>RFS</th>
<th>SES</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated expenditure</td>
<td>647</td>
<td>303</td>
<td>80</td>
<td>1030</td>
</tr>
</tbody>
</table>

The parts of the State where this money is spent differ between the agencies. Around 70 per cent of FRNSW expenditure occurs in the Greater Sydney Area (extending to the Hawkesbury River in the north, to Penrith in the west, and Sutherland Shire Council in the south). The NSW RFS does not operate in the urban cores of Sydney and Newcastle, but does operate several fire districts on the fringes of the Greater Sydney Area. Around 9 per cent of NSW RFS expenditure occurs in councils in the Greater Sydney Area. The locations of NSW SES expenditures vary over time, depending on where major disasters such as floods or storms occur.

An outline of NSW funding arrangements for emergency services is in appendix ii. For comparison, funding arrangements in other States and Territories are set out in appendix iii.

3: Includes Cumberland (including Blacktown, Fairfield and Penrith), Sutherland, the Hills, Hornsby, Ku-ring-gai, Warringah/Pittwater, Liverpool and Campbelltown zones.
2 TOWARDS FAIRER, MORE EFFICIENT FUNDING FOR EMERGENCY SERVICES

Almost all other States and Territories have abolished taxes on insurance as a means of funding emergency services. The main arguments for reform relate to the inefficiency and unfairness of current funding arrangements for emergency services.

2.1 RECENT STUDIES OF THE EMERGENCY SERVICES LEVY

Several studies have examined the NSW emergency services levy in recent years.

**Australia’s Future Tax System**  
*(the Henry Review) – 2010*

The Henry Review found:

“*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 under-insurance 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.*”

The Henry Review 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.”

**IPART Review of State Taxation - 2008**

The Independent Pricing and Regulatory Tribunal of NSW (IPART) conducted a review of all State taxes in 2008. IPART found that the fire services levy, as it was then known:

“*adds to the multiple layers of taxation on insurance, discouraging households and businesses from acquiring an appropriate level of insurance cover. This has implications for the efficient allocation of resources within the economy.*”

IPART recommended that the levy on insurance companies should be replaced by an equivalent, transparent property based levy collected by local councils. The levy would be separately identified on rates notices, be phased in over time, and be excluded from the municipal rates cap.

**Public Accounts Committee Review of Fire Services Funding – 2004**

In 2004 the Public Accounts Committee (PAC) of the NSW Legislative Assembly considered various options to fund the fire services and conducted extensive modeling of a property based system. The Committee found that a property based levy would broaden the base of contributions to the fire services in the residential sector, and the majority of property owners currently holding insurance would contribute less through a property levy.
2.2 MAKING THE SYSTEM FAIRER AND MORE TRANSPARENT

One of the main objections to the current system is that the majority of funding is provided by people who insure their properties, while people who do not insure their properties enjoy the same benefits.

In 2009-10, 36 per cent of NSW households did not have contents insurance and 5 per cent of home owners did not have building insurance. Table 5 shows the rates of non-insurance in NSW among different groups of households.

Table 5: Proportions of households in NSW without insurance, 2009-10

<table>
<thead>
<tr>
<th></th>
<th>Building</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner without a mortgage</td>
<td>5.7%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Owner with a mortgage</td>
<td>4.1%</td>
<td>17.2%</td>
</tr>
<tr>
<td>All home owners</td>
<td>4.9%</td>
<td>17.4%</td>
</tr>
<tr>
<td>Renter</td>
<td></td>
<td>76.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>36.1%</strong></td>
</tr>
</tbody>
</table>

Source: Treasury calculations based on data provided by the Australian Bureau of Statistics, from the 2009-10 Household Expenditure Survey. Figures for building insurance are restricted to the set of home owners who do not pay body corporate fees.
Figures 2 and 3 provide an inter-State comparison of levels of non-insurance. The level of non-insurance for household contents has increased in NSW in recent years, and remained stable in Victoria. In contrast, the proportion of households without contents insurance has decreased in Western Australia, since the abolition of its insurance-based fire services levy in 2003, and in South Australia, since its insurance-based fire services levy was abolished in 1999.

Figure 2: Proportion of households without contents insurance

Source: Calculated using data supplied by the Australian Bureau of Statistics, Household Expenditure Surveys.
The proportion of home owners without building insurance is relatively low in all States. Between 1998-99 and 2009-10 the rate of building non-insurance fell in all States, which may reflect industry costs and general affordability. But within this broad declining trend since 1998-99, NSW and Victorian rates of building non-insurance have fallen by less than Western Australia and South Australia, which abolished their insurance based levies during the time period shown in Figure 3. The rate of non-insurance in New South Wales actually increased between 2003-04 and 2009-10.

**Figure 3: Proportion of home owners without building insurance**

In summary, more than a third of NSW households do not have contents insurance, and among home owners who do not live in strata titled properties around 5 per cent do not have building insurance. Interstate evidence suggests that the proportion of households who take out insurance tends to increase when insurance taxes are removed.

Less information is available about non-insurance by businesses. Relying on data from the 2001 Australian Bureau of Statistics small business survey, the Insurance Council reported in 2002 that across Australia approximately 17 per cent of all registered small businesses employing up to 20 people had no insurance.

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In a survey conducted in September 2008, the Insurance Council found that 26 per cent of small businesses did not have any form of general insurance, with the proportion as high as 40 per cent for sole traders.\(^5\)

Sometimes, households and businesses without insurance may not have a choice. For example, people living in flood prone areas may not be able to obtain home contents insurance. However, reducing the levy on the insurance industry is likely to increase the affordability of insurance for most consumers, and to reduce the rates of non-insurance. Moving to a property levy would also mean that all property owners would contribute on an equal basis to the costs of fire and emergency services, unlike the current system in which the majority of funding is derived from households and businesses with insurance.

**2.3 MAKING INSURANCE MORE AFFORDABLE**

Insurance taxes, which raise the price of insurance, significantly reduce levels of insurance, depriving households and businesses of valuable services they would otherwise buy. An indication of the ESL’s effect on insurance prices is given by the Insurance Council of Australia’s recommendations to its members for pricing to cover the cost of the ESL. In 2011-12 it recommended that insurers increase their gross premiums by 40 per cent for most forms of commercial insurance, 23 per cent for household insurance and 1 per cent for vehicle insurance.

The ESL is a highly inefficient tax, causing a significant loss of consumer welfare.\(^6\) While the tax revenue is spent on fire and emergency services, the flow-on costs are entirely lost from the economy.

Developments in other States suggest that replacing the emergency services levy on insurance companies with a well-designed tax on land values would increase levels of insurance.

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6: The value to consumers of insurance and other services foregone as a result of the emergency services levy has been estimated at about $419 million. That is, in addition to the direct $698 million effect of higher premiums on those who buy insurance, the emergency services levy has flow-on costs to the economy equivalent to 60 per cent of the revenue raised. The average excess burden of the emergency services levy is 60 per cent of the revenue raised, according to modelling conducted for NSW Treasury by KPMG Econtech in 2011.
3 HOW A PROPERTY BASED LEVY COULD WORK

The Government invites the community to comment on design options for a property based levy.

A wide range of alternative revenue sources to fund emergency services has been examined and it is apparent that if the current arrangements are changed, a property based levy would be the best and most efficient alternative. In particular, a potential fee for service approach was judged to be impractical because of the difficulties in attempting to combine the expected cost of serving a property, risks faced by a property, and value of property at risk.

3.1 REPLACING EXISTING FUNDING

Question 1:

Which of the following revenue sources associated with emergency services funding should be replaced by a property levy.

- The emergency services levy payments by insurers and the associated stamp duty;
- Local government contributions; or
- The portion of emergency services funding currently provided from general government revenue?

Supposing that a total of $950 million is needed to fund emergency services in one year, the revenue target for a replacement property levy could vary between a minimum of $763 million and a maximum of $1,013 million (which includes lost stamp duty), depending on which of the following State revenue sources is replaced:

- $763 million, covering the insurance industry’s current contribution of 73.7 per cent of the funds needed for emergency services plus $63 million, from the stamp duty generated on the part of insurance company premiums that is attributable to the emergency services levy
- $111 million, the 11.7 per cent council contribution, and
- $139 million, the 14.6 per cent contribution provided by the State Government.

There are transparency, simplicity and efficiency arguments for replacing the contributions currently made by local governments. A single levy on all properties reflecting the full costs of emergency services would be administratively simpler than having a separate levy plus a contribution funded through rates. A single levy would also raise public awareness of the cost of service provision.

Replacing the State Government’s current contribution would free up funding for other services or enable other less efficient taxes to be reduced. It would also raise public awareness of the cost of service provision, by having the full cost reflected in a single levy.

Any increase in the overall revenue target for a property based levy would increase its direct financial impact on households and businesses. As an example, Table 6 overleaf sets out the implied rates payable if a single ad valorem levy were applied across all rateable land in the State.

7: While emergency services currently cost more than $1 billion per year, funding needs are smaller because self-generated income and depreciation are excluded from the calculations of the billable cost of service.
Households and businesses could also benefit from reductions in insurance taxes, council rates or other State taxes, depending on which revenue target is chosen and their individual circumstances.

Removing the current ESL from insurance policies is estimated to save the average household with building and contents insurance around $250 per annum\(^9\).

### 3.2 RATE STRUCTURE

**Question 2**

Should a property levy be raised as a fixed amount per property, as a proportion of property value, or some combination of the two?

Two main options for a property based levy are a fixed dollar amount per property, or an ad valorem amount (i.e. a proportion of the property value).

Reflecting the distribution of property values, a relatively large proportion of the total value of land in NSW is represented by a relatively small group of properties. Under an ad valorem levy, most taxpayers would pay less tax than under a fixed fee per property, but a small number, owning the most valuable properties in the State, would pay significantly more.

### Table 6: Effect of revenue targets on a State-wide ad valorem levy on land values

<table>
<thead>
<tr>
<th>Revenue target</th>
<th>Ad valorem rate per $1,000 of land value</th>
<th>Annual levy for land valued at $250,000(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,013 million</td>
<td>$1.07</td>
<td>$267</td>
</tr>
<tr>
<td>$874 million</td>
<td>$0.92</td>
<td>$230</td>
</tr>
<tr>
<td>$763 million</td>
<td>$0.80</td>
<td>$201</td>
</tr>
</tbody>
</table>

8: The median value of residential land in the State is $200,000. In metropolitan areas the median value of residential land is $280,000, while in other parts of the State the median value of residential land is $144,000.

9: Based on data from the Insurance Council of Australia about average gross household premiums in NSW in March 2012, and assuming a 23 per cent margin for household premiums as recommended by the Insurance Council of Australia to its members to cover the costs of the emergency services levy in 2011-12.
The impact of an ad valorem property levy on the highest valued properties could be reduced by imposing a cap on the maximum amount payable in respect of any individual property. A cap would reduce the potential revenue base, increasing the amount of revenue that would need to be recovered from lesser valued properties.

Under a fixed dollar amount, low valued properties would pay the same amount as high valued properties. If low income earners own lesser valued properties, a fixed dollar amount would represent a higher part of their incomes (i.e. the tax would be regressive).

**Land value versus market value of real estate**

An ad valorem land levy would be based on land values, including basic improvements such as sewerage and electricity connections. They do not include the value of buildings on the land. Land values are estimated regularly by the Valuer-General.

The Government does not propose to use market values of properties, which include the value of buildings. The Government considers this alternative would be both less efficient and administratively expensive to implement.

Taxing the market value of properties provides a disincentive to make capital improvements on land, and thereby distorts investment decisions. While market values are known when individual properties are sold, there is no database or existing methodology to provide annual estimates of market values for each individual property in the State.
3.3 RESIDENTIAL, COMMERCIAL AND RURAL LAND

Question 3

Should different rates of tax be applied to different property types?

Depending on the design of a property based levy, different types of property may collectively bear a greater or lesser part of the funding burden for emergency services.

One approach would be to reflect the existing distribution of the tax. Figure 5 sets out the proportions of ESL premiums and council rates borne by residential, businesses and rural properties. Weighting these proportions by the amounts paid by both insurance companies and local governments, residential households are estimated to contribute around 48 per cent of the current revenue, business properties contribute around 46 per cent, and rural properties contribute around 6 per cent.

Sources: Deloitte analysis of data provided by the Insurance Council of Australia; Department of Local Government, Comparative Information on NSW Local Government Councils 2009/10

A common rate of tax applied to all property types regardless of use would be simple and efficient. Figure 6 overleaf sets out the proportion of revenue that would be raised from residential, business and rural properties if a flat dollar amount were imposed on each property or if a single ad valorem tax rate were applied to property values. The two pie charts reflect the number of properties in each class and the values of properties in each class.
Another approach would be to spread the contributions between property types according to the cost of service. An indication of the relative cost of service can be provided by examining call-out numbers for emergency services: 55 per cent of responses to incidents by FRNSW in 2010-11 were to business properties, 34 per cent to residential properties and 7 per cent to rural properties.

In principle, it would be possible to identify a wider range of property types, based on fire and emergency risks. For example, individual properties with high emergency risks (e.g. bushfire prone property, flood prone properties, proximity to major hazard facilities, etc) could be identified to pay a higher proportion of the funding burden, given their increased risk and attention by emergency services. Schemes such as this could result in many instances of apparently arbitrary differences in tax rates applying to neighbouring properties.

There is no generally accepted measure relating property risks, fire-fighting costs, and values of protected properties. For example:

- Office buildings in the CBD frequently have false alarms, which incur costs for attendance, but in the event of a major office fire the fire-fighting costs may be very high, and the economic impact of the destruction of a CBD building could also be very high.

- During the NSW floods of 2011-12 many communities experienced wide spread flooding, including properties that were not within defined floodplains and communities that had never been so severely affected.

The existing allocation of costs between councils reflects many of these factors, but cannot be easily explained and does not relate to the risks faced by individual properties.
3.4 DISTINGUISHING BETWEEN GEOGRAPHIC ZONES

Question 4:

Should different tax rates be applied in different parts of the State? If revenue amounts are zoned geographically, where should the boundaries of those zones be?

Applying the same rates across the State would be simple and efficient and would satisfy many people’s ideas of fairness. Alternative notions of fairness could be used to apply different property levy rates in different parts of the State, reflecting factors such as the existing funding distribution, the cost of emergency service provision, or the number or value of properties served.

A possible distinction might be between the Greater Sydney Area and the rest of the State. Fire and Rescue NSW currently treats the Greater Sydney Area as a single unit for purposes of obtaining funding contributions, and equipment is regularly shared across the area. With greater population density in Sydney than in the rest of the State, there are both higher numbers of properties at risk and higher capacity to provide rapid service.

More finely detailed geographic zones could be envisaged. For example, Queensland and South Australia apply different rates in four zones, while Western Australia uses five zones. In NSW a system of five zones reflecting population density, and related to service levels, could include urban; regional centre/urban fringe; regional towns, rural agricultural and remote rural. Even more detailed would be a rate reflecting service levels in individual local government areas.

Analysis conducted for NSW Treasury and the Ministry of Police and Emergency Services suggests that the use of smaller geographic zones to reflect the costs of service or service levels in smaller geographic zones increases the likelihood of unexpected results. For example, there may be some local government areas which face particularly high costs of service, but have very low potential revenue bases.

Table 7: Possible funding splits, city vs country

<table>
<thead>
<tr>
<th></th>
<th>Residential Insurance collections</th>
<th>Total Rates Revenues (a)</th>
<th>Cost of Emergency Service (b)</th>
<th>Number of Properties</th>
<th>Land Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Sydney Area</td>
<td>53%</td>
<td>55%</td>
<td>54%</td>
<td>51%</td>
<td>67%</td>
</tr>
<tr>
<td>Rest of State</td>
<td>47%</td>
<td>45%</td>
<td>46%</td>
<td>49%</td>
<td>33%</td>
</tr>
</tbody>
</table>

a) Rates revenue in the Greater Sydney Area includes councils in groups 1, 2, 3, and 7 in the publication Department of Local Government, Comparative Information on NSW Local Government Councils 2009/10

b) Based on the current allocation between councils of contributions to the emergency services.

10: Although Victoria plans to start a property based levy from 1 July 2013 no decision has yet been announced about whether this would involve different rates in different parts of the State.
3.5 MOTOR VEHICLES

Question 5: Should some proportion of emergency services funding be raised as an annual charge on vehicle registration?

Motor vehicle incidents account for around 17 per cent of call-outs, when call-outs for each agency are weighted by their relative contributions to the cost of emergency services.

Table 8: Activity related to motor vehicle incidents, 2009-10

<table>
<thead>
<tr>
<th></th>
<th>FRNSW</th>
<th>RFS</th>
<th>SES*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>related call-outs</td>
<td>9,287</td>
<td>5,019</td>
<td>6,000</td>
</tr>
<tr>
<td>Total call-outs</td>
<td>62,397</td>
<td>20,146</td>
<td>387,520</td>
</tr>
<tr>
<td>Proportion of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>activity relating to motor vehicles</td>
<td>15%</td>
<td>25%</td>
<td>2%</td>
</tr>
</tbody>
</table>

* measured as total volunteer hours.

In a fee for service approach, around 17 per cent of the cost of emergency services might be raised as an additional charge imposed through annual registration fees.

From a tax reform perspective, taxes on motor vehicles are already relatively inefficient. The ‘marginal excess burden’ of annual registration charges, the efficiency cost associated with a small increase in the tax rate, is 31 per cent of the additional revenue.\(^{11}\)

Taxes with higher excess burdens are less efficient. For comparison, the emergency services levy paid by insurance companies has an excess burden of 60 per cent, while the marginal excess burden of council rates is 3 per cent.

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\(^{11}\) See the NSW Government’s submission to the 2011 Commonwealth Tax Forum, citing KPMG Econtech (2011).
3.6 CONCESSIONS

Question 6:
Should pensioners receive concessional rates for a new property levy?

The financial impact of a property levy could be reduced for low income groups. Eligible holders of pensioner concession cards currently are eligible for a concession on their rates. Around 470,000 pensioners in NSW own real estate. For every 10 per cent reduction in property levies paid by pensioners, Government revenue is estimated to be reduced by up to $30 million per year.

3.7 TAKING ACCOUNT OF CHANGING COSTS

Question 7
How should the revenue target be varied each year to reflect changing costs of fire and emergency services?

The revenue target could be adjusted each year to take account of actual cost changes, or the rates could be set once, with automatic rules to take account of inflation.

Setting a different revenue target each year to reflect actual costs of fire and emergency services would mean that a new tax rate would need to be calculated each year. It would increase public awareness of cost escalation in the fire and emergency services as they respond to the changing nature of disasters around the State.

If an ad valorem property levy is used, the rate could be set as a constant proportion of land value which does not change over time. As land values rise over time, the revenue raised would also rise over time.
If a fixed fee per property is used, the amount could be revised each year based on some measure of inflation, such as movements in the consumer price index or average land values.

Having a revenue target with automatic escalation (i.e. an ad valorem rate that is constant over time, or a fixed fee that is indexed to inflation) would provide greater certainty to taxpayers about their future tax obligations. Over time, however, there may be an increasing difference between the tax paid and the cost of emergency services.

3.8 COLLECTION AGENCY

Question 8
Should revenue from a land based levy be collected by local governments or the Office of State Revenue?

Local governments collect council rates, which are levied on land values. They have established systems for billing, collection of rates and collection of debts. It would be relatively straightforward for local governments to include a notice of a property based emergency services levy on council rates assessment notices. A period of adjustment would be required in order for councils to implement changed systems. Councils might also require compensation for the administrative cost of collecting and passing on the charge and if they were made responsible for collecting bad debts.

The Office of State Revenue is the State’s primary tax collection agency, collecting land tax, payroll tax, and stamp duties, for example. However, it does not have an existing system for issuing tax assessment notices to all properties in the State. Land tax assessments are only sent to around 150,000 land owners each year, while there are over 3 million individual properties in the State.

Land tax is assessed only on total holdings of more than $387,000 of land, and is not paid in respect of principal places of residence, farming properties or retirement villages. Issuing around 3 million assessments for a new property levy would require a significant administrative investment for the Office of State Revenue.

3.9 TRANSITIONAL ARRANGEMENTS

Question 9
Is a transitional period required for adjustment of the emergency services levy, and if so how should any funding gap arising from a transitional period be recovered?

An abrupt replacement of an insurance based system with a system based on land values could cause some households and businesses to delay renewals on their insurance until the insurance levy is abolished.

Depending on timing, individuals could pay an additional component in their insurance premiums, and pay a property based levy for the coming year just a short time later.

To avoid incentives to delay the purchase of insurance, insurance companies could be required to reduce their surcharge on insurance premiums by 1/365th per day. A compulsory scheme would require a defined methodology under which insurance companies would pass.

12: This would require a change to the Local Government Act, 1993.
on the ESL to consumers. No such methodology currently exists in NSW. Western Australia applied this form of tapered transition when removing its insurance levy in 2002-03.

An alternative approach would be to rely on competition between insurance companies to manage the transition process, recognising that insurance companies have their own incentives to ensure that consumers do not unduly delay renewals. The NSW Government understands that this option is under consideration in Victoria, although no final decision on transitional arrangements has yet been announced in Victoria.

Some transitional arrangements could give rise to a revenue shortfall for the Government, which would need to be recovered from an alternative revenue source. More detailed information on the funding gap calculations is included in appendix iv.

### 3.10 Monitoring Insurance Prices

**Question 10**

What arrangements are needed to ensure that any reductions in insurance taxes are passed on to consumers?

The Government expects that abolishing the emergency services levy on insurance companies will result in lower costs of insurance for many consumers. In a competitive market, it is generally expected that any reductions in the cost of supplying a service would be passed on to consumers in the form of lower prices. The insurance market is highly competitive, with 94 insurance companies currently paying the emergency services levy, although a large proportion of the market is dominated by five main company groups.

There is no evidence to suggest that when Western Australia and South Australia abolished their fire services levies on insurance companies that insurance companies took advantage of reduced taxes to increase their profit margins. Western Australia’s compliance review found:

“We are pleased to report that insurers have passed on the savings to consumers. The removal of FSL in Western Australia contributed to Western Australia having one of the most price competitive insurance markets in Australia in 2003. … Consumers have responded to cheaper insurance by increasing their insurance cover to more adequately protect themselves.”

South Australia’s review found:

“The overall finding of our investigations is that there is no evidence to suggest that any insurance company engaged in any inappropriate pricing behaviour during the transition period of the removal of the Fire Services Levy. To the contrary, there is strong evidence and strong reason to believe that, for the industry as a whole, all of the savings associated with the removal of the FSL were passed on to consumers.”

To address remaining concerns that insurance companies would not fully pass on these benefits to consumers, the Government will ask the Independent Pricing and Regulatory Tribunal (IPART) to monitor insurance premiums. IPART will report on whether tax reductions are passed on to consumers. In addition, a hotline could be established within NSW Fair Trading, to provide an avenue for dealing with individual complaints on specific insurance policies.

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The purpose of this Discussion Paper is to seek public consultation on how our emergency services should be funded. The NSW Government believes that options exist for funding mechanisms which are fairer, more transparent and accountable than the current arrangements. The Government is committed to maintaining current funding levels.

You can read this discussion paper and give your input at the Have Your Say website.

To have your say, visit www.nsw.gov.au/haveyoursay and select Emergency Services Funding 2012.

3.11 AMBULANCE FUNDING

The Ambulance Service of NSW is partly funded through a levy on private health insurance with other funding from general State taxation and various fees and charges.

The Minister for Health has commissioned a strategic review of the NSW Ambulance Service to support improved access to critical care services for the NSW community. One of the terms of reference is to explore possible options for the financing of ambulance services, which is incorrectly perceived to be a free service, resulting in significant levels of bad debt for the organisation. When the ambulance strategic review has been finalised the Government will consider whether and the extent to which new revenue sources, such as a property levy, could be used to fund the Ambulance Service of NSW and potentially replace other taxation and levy arrangements.

4 HAVE YOUR SAY

All interested people and organisations may comment on the options for the design and implementation of a new emergency services property levy. All written submissions will be treated as public documents unless individuals or organisations request otherwise.

Comments are sought by 8 October 2012 and should be provided through the e-portal at http://haveyoursay.nsw.gov.au/ESL. The Government will assess all submissions received, before making a final decision towards the end of 2012.

If a new funding system is adopted, the decision will include the nature of any replacement revenue sources, and a timetable for any transitional arrangements.
Funding our Emergency Services
Appendices

i. BACKGROUND ON EMERGENCY SERVICE ORGANISATIONS

FIRE AND RESCUE NSW

Functions and Responsibilities

FRNSW core functions are emergency and disaster prevention, preparedness, response and recovery.

Fire Prevention and Suppression

FRNSW is responsible for preventing and responding to fire emergencies, providing direct protection to 90% of the State’s population in the major cities, metropolitan areas and towns across rural and regional NSW. FRNSW also responds beyond the limits of FRNSW Fire Districts to support the NSW Rural Fire Service at structure and bushfires and other emergencies, when requested.

Rescue

As the largest rescue provider in NSW, FRNSW responds to rescue calls and related incidents throughout the State, rescuing people caught in a range of domestic, industrial and transport incidents such as road accidents, as well as performing animal rescues. In addition, specially-trained teams carry out swift water, alpine and vertical rescues. FRNSW is also the lead agency for the State’s urban search and rescue capability, which deals with building collapse and other complex rescues.

Hazardous Materials Incidents

FRNSW is the lead agency for hazardous material emergencies and other hazardous conditions. This task involves dealing with chemical, biological and radiological hazards ranging from industrial accidents through to deliberate acts of terrorism and includes downed powerlines, electrical short circuits, gas leaks and fuel and chemical spills.

Supporting Other Agencies

During major storms and floods, FRNSW uses its expertise to support the NSW State Emergency Service in response and recovery. In some locations, by agreement FRNSW also assist the Ambulance Service of NSW with basic medical response. All FRNSW firefighters are trained and equipped for basic rescue operations, so secondary accredited rescue units are often called upon when primary rescue units from other services are unavailable. All FRNSW firefighters are trained and equipped for basic life support, including oxygen resuscitators and automatic external defibrillators.

Terrorism Consequence Management

FRNSW participates in joint whole-of-government counter-terrorism planning and training activities to prepare for possible terrorist attacks. The agency’s role in these situations is dealing with the consequences of an attack, particularly fires, chemical, biological or radiological releases and rescuing people following building collapse.

Community Safety

The agency’s community safety role focuses on prevention and preparedness programs to create a safer environment and build community resilience. When fire crews are not engaged in responding to emergency incidents, they switch their focus to educating the community, engaging in fire and emergency prevention activities, pre-planning, preparation, training, learning and capability development.
RURAL FIRE SERVICE

Functions And Responsibilities

Fire Prevention and Suppression
The principal responsibility of the Service is to provide fire protection to communities across 99 per cent of the State’s land mass and to co-ordinate bushfire fighting operations where necessary in accordance with the provisions of the Rural Fires Act, 1987. The NSW RFS is the lead agency for combating bushfire in New South Wales.

Bushfire Hazard Management
Through Local Bushfire Management Committees and their preparation of bushfire risk management plans the Service monitors the continuous efforts of land management agencies to reduce bushfire hazards on their lands. The RFS also participates directly in these activities with 140 of its State Mitigation staff engaged in the physical reduction of bushfire hazards across the landscape.

Public Awareness
Through the Prepare, Act, Survive campaign considerable resources of the RFS are devoted to publicly educating communities about how best to prepare and respond to bushfires by understanding bushfire alerts and warnings, fire danger ratings and the importance of bushfire survival plans.

Community Engagement
In order to reduce risks associated with bushfires and other emergencies the RFS continually interacts with local communities. The programs delivered by the Service aim to involve and inform local communities about practical bushfire prevention and protection measures in order to better prepare them in the event of a bushfire.

Development Assessment and Planning
A key responsibility of the RFS is to improve bushfire safety through the assessment of the design and construction of new developments in designated bushfire prone areas and to ensure compliance with the Planning for Bushfire Protection guidelines.

Assisting Other Agencies
Consistent with the Emergency Management arrangements for the State the RFS consistently assists and support other agencies during emergencies particularly during storms and floods. This assistance often extends to other States who experience natural and other disasters.
STATE EMERGENCY SERVICE
Functions And Responsibilities

Tsunami Role
The NSW SES is the lead agency for tsunami and has had this responsibility since 2003. The NSW SES has developed the NSW State Tsunami Plan and the role of the NSW SES in relation to tsunami management and response, inclusive of developing tsunami warning systems, intelligence systems regarding communities and facilities that are vulnerable to the effects if tsunami, education programs and evacuation warning messages.

Storm Role
The NSW SES is the lead agency for storm response, inclusive of thunderstorms, snowstorms and coastal erosion. The NSW SES has developed the State Storm Sub Plan which sets out the role of the NSW SES in relation to storms and the management of storm response and ensures all agencies are aware of their responsibilities and actions. The NSW SES is required to prepare, coordinate and deliver community awareness and educational material and programs and provide advice for inclusion in warnings of severe weather.
Flood Role
The NSW SES is the lead agency for flood response and has developed the State Flood Sub Plan which sets out the role of the SES in relation to floods. To ensure effective management of flood response operations, the NSW SES leads and conducts emergency planning for flood liable communities and undertakes community education programs to engage with communities about their flood risk and the emergency management strategies that are in place to manage it.

Road Crash Rescue
The NSW SES is the second largest provider of road crash rescue services in NSW, and the largest provider in regional and rural communities, with 83 units accredited by the State Rescue Board to undertake this activity. NSW SES volunteers who engage in road crash rescue undergo rigorous training and are equipped with specialized vehicles and equipment.

Vertical Rescue Role
The NSW SES rescues people from heights and depths. This includes people who have fallen from or trapped on cliffs as well as people who have fallen down steep slopes. The NSW SES has 32 accredited units who are specially trained to undertake this task.

Alpine Search and Survival
NSW SES units assist the NSW Police Force in searches for lost and missing persons in the NSW Alps. These units are the best equipped and trained alpine search and rescue units in NSW. This capability enables the NSW SES to be able to provide search teams continuously for 24 hour operations for one week’s durations with all teams generally deploying within 60 minutes of activation.

Community Education
The NSW SES is committed to building community resilience and capacity by facilitating the development of prepared communities so that they can then respond to and recover better from storms, floods and tsunamis, thus reducing the impact (loss of life and property and the social impacts) of these events.

Community engagement employs a range of multi level strategies under the FloodSafe and StormSafe programs, however, the most effective delivery of community engagement and education is through local volunteers in activities that engage with their local community around local risk.

Supporting Other Agencies
During major bushfires, SES expertise is used to support the NSW Rural Fire Service in response, logistical support and recovery. In some locations, by agreement the SES also assist the Ambulance Service of NSW with basic medical response.

All NSW SES volunteers are trained and equipped for basic life support, including oxygen resuscitators and automatic external defibrillators. The SES assists the NSW Police Force in searches for lost or missing persons and has in excess of 3000 trained volunteers in Level 1 Urban Search and Rescue (USAR). NSW SES volunteers frequently travel outside their own areas at short notice and some for days at a time, to respond to emergency situations in other communities.
Funding our Emergency Services

Appendices

ii. HOW FIRE AND EMERGENCY SERVICES ARE CURRENTLY FUNDED

Funding for FRNSW, the NSW RFS and the NSW SES is determined each year by the Minister for Police and Emergency Services in consultation with the Treasurer for the following financial year.

The 2011-12 Budget divided responsibility for funding $947 million of fire and emergency service expenditures between insurers, local governments and the State Government. By 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.

Budgeted expenditure in 2011-12 by the three agencies exceeds the contributions from insurers, local government and the State Budget by $44 million. In the case of FRNSW and the NSW SES the difference arises because self generated income and depreciation are excluded from the calculations of the billable cost of service.

The Ministry for Police and Emergency Services manages the collection of funds from the insurance industry and local councils on behalf of the FRNSW, the NSW RFS and the NSW SES. Contributions are collected in accordance with the provisions of the Fire Brigades Act 1989, Rural Fires Act 1997, the State Emergency Service Act 1989 and the State Emergency and Rescue Management Act 1989.

### Table 9: Budgeted funding sources for emergency services in 2011-12 ($ million)

<table>
<thead>
<tr>
<th></th>
<th>Insurance industry</th>
<th>Local Government</th>
<th>State Government</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution</td>
<td>698</td>
<td>111</td>
<td>136</td>
<td>947</td>
</tr>
</tbody>
</table>
Insurance Industry Contributions

The Emergency Services Levy on individual insurance companies is calculated based on their market shares of particular types of insurance. By 30 September each year, insurance companies must provide information for the previous financial year showing the total amount of premiums that are subject to contribution. Only a part of the total value of insurance premiums is subject to contribution, as set out in the following table.

Table 10: Proportion of premiums subject to contribution

<table>
<thead>
<tr>
<th>Class of policy</th>
<th>Proportion of premiums subject to contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any insurance of property including consequential loss, except that mentioned elsewhere in this table</td>
<td>80%</td>
</tr>
<tr>
<td>House owners and householders, including building or contents insurance</td>
<td>50%</td>
</tr>
<tr>
<td>Personal combined on personal jewellery and clothing, personal effects and works of art</td>
<td>10%</td>
</tr>
<tr>
<td>Motor vehicle and motor cycle</td>
<td>2.5%</td>
</tr>
<tr>
<td>Marine and baggage insurance</td>
<td>1%</td>
</tr>
<tr>
<td>Fire and hail insurance for crops</td>
<td>1%</td>
</tr>
<tr>
<td>Livestock insurance</td>
<td>1%</td>
</tr>
<tr>
<td>Aviation hull</td>
<td>Nil</td>
</tr>
<tr>
<td>Any insurance solely covering loss by theft, plate glass, mechanical breakdown, boiler explosion, or inherent or latent defects.</td>
<td>Nil</td>
</tr>
</tbody>
</table>
With information on the sum of industry premiums subject to contribution, the contribution owed by an individual company is calculated as:

\[
\text{contribution payable} = \frac{a \times b}{c}\]  

where,

a. is the total amount of premiums subject to contribution specified in the return made by the company;

b. is the total amount of emergency services contributions payable by all insurance companies for the financial year;

c. is the total amount of all premiums subject to contribution.

Insurance companies generally recover their contributions by imposing a surcharge on policy holders’ premiums. The surcharge is usually described as a fire services levy (FSL) on insurance policies. Historically the Insurance Council of Australia (ICA) has calculated surcharge rates for different classes of policies which it recommends to its members as a means of achieving the necessary revenue. There has been no obligation for insurers to follow these recommendations, and from 2012 the ICA has decided to abandon these calculations. The calculations provide an indication of the effect of the ESL on insurance premiums. Table 11 sets out the percentages recommended in 2011-12.

Insurance brokers that place business with overseas insurance companies make a direct contribution to funding the emergency services. Property owners who insure directly with an overseas insurer are also required to make a direct contribution.

The GST and insurance stamp duty are levied on the insurance policy, including the base premium and the ESL.

### Table 11: Insurance Council of Australia advisory levy rates, June 2011

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Percentage of gross premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire / industrial special risks / consequential loss</td>
<td>40 per cent</td>
</tr>
<tr>
<td>Householders / homeowners</td>
<td>23 per cent</td>
</tr>
<tr>
<td>Motor</td>
<td>1 per cent</td>
</tr>
</tbody>
</table>
Local Government Contributions

A different methodology is used for each of the three fire and emergency service agencies to determine the amount to be contributed by individual local governments.

For FRNSW the basic principle is that each local government area makes a contribution in proportion to the expenditures within its area. FRNSW estimates its expenditure in each local government area (LGA). Each year, adjustments are made to account for changes such as new fire stations or changes in fire station staffing.

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, in July each year the Minister for Police and Emergency Services estimates expenditure for the forthcoming year. The Service provides each District/Team/Zone with an estimates database and instructions which assist in the preparation of these estimates. These estimates are reviewed in consultation with the respective Local Government Authority, District and Regional Management and the Executive to inform an estimated total expenditure. This is submitted to the Minister and, after announcement of the budget by the Treasurer, it is used to determine allocations. The NSW RFS reimburses Councils in December for costs associated with operating costs as approved in the budget. They are also reimbursed the costs associated with their ESL contribution to the NSW RFS Volunteer and Support Services costs (excluding insurances) for the previous financial year.

The formula for local government contributions for the NSW State Emergency Service is undergoing a five-year transition, starting from 2010-11. In 2009-10, each local government’s contribution was based on savings gained from a changed contribution to the fire services. In the new system, each local government’s contribution to the NSW State Emergency Service is calculated on its population base. In 2010-11 only 20 per cent of the difference between payments calculated using the transitional system and the new pro-rata system will be applied. A further 20 per cent of the difference will be applied each year, making the transition to the pro-rata system complete in 2014-15.

Local government funding contributions are made in quarterly installments. The first two installments in each financial year are based on estimates only, as at the time that these payments are due, the total budgets of the services that are subject to contributions have not been finalised. The estimates for the first two quarterly installments are based on one quarter of the amount contributed in the previous financial year.

By the time the third installment is due, the budgets subject to contribution and any other adjustments have been finalised so that the three services are able to calculate the final amounts contributable by each council. The third and fourth quarterly installments invoices are for the amounts required to collect the remaining funds (adjusted as necessary) for the financial year.
iii. FUNDING ARRANGEMENTS IN OTHER STATES

Other States and Territories have almost all abandoned the taxation of insurance companies to fund emergency services. The exceptions are Tasmania and Victoria. Tasmania funds its emergency services with contributions from local councils, insurance companies and motor vehicle taxes. Victoria has announced its intention to replace its tax on insurance companies with a property based levy commencing on 1 July 2013.

Victoria currently funds its fire services on a similar basis to NSW with insurance industry contributions of 75 per cent of the Metropolitan Fire & Emergency Services Board’s budget and 77.5 per cent of the Country Fire Authority’s budget. Local governments within the Melbourne metropolitan area also contribute 12.5 per cent of the budget. The remaining funding comes from the State budget.

Following the Victorian bushfires of 2009 a Royal Commission recommended that the insurance industry contributions be replaced with a property based levy. The Victorian Government has accepted this recommendation, and is working towards its implementation. A discussion paper on the design of a property based levy was released in June 2011. The period for submissions has now closed, and the Government is finalising the design and implementation of the new levy, which is to commence on 1 July 2013.

In Queensland urban fire levies provide about 68 per cent of the funding for the Queensland Fire and Rescue Service (QFRS), with the remainder being provided by the State Government and several smaller fees and charges. The urban fire levies are collected by local governments on behalf of the QFRS. Urban areas are zoned into urban fire districts, each of which is classified into one of four classes, determined by the number of full-time fire officers. Properties are grouped into 16 categories. Fixed annual amounts are levied depending on the property category and the fire district. For example, in 2011-12 vacant land in a class D district would be subject to a levy of $20.20, while a major casino or oil refinery in a class A district would be subject to a levy of $314,968.40.

Western Australia’s emergency services levy is based on property values. It funds 80 per cent of the cost of career and volunteer fire brigades, volunteer State Emergency Service units and volunteer emergency service units. The remainder of the funding is derived from State government funding and other revenue sources. The ESL is levied on the gross annual rental value of a property, which is estimated by the State’s Valuer General. Different tax rates are applied in each of five geographic zones, with a minimum levy of $55 and maxima of $268 for residential property and $160,000 for commercial or industrial property in Perth. The levy is collected by local governments, and included on rates notices.
South Australia has a levy of $50 per property plus a charge related to real estate capital value (set at 0.0964 per cent in 2011-12), with adjustments for location and land use. A charge of up to $24 applies to mobile property such as cars, motor cycles and commercial fishing vessels. The levy is collected by the State Revenue Office.

Tasmania’s Fire Services Levies provide around 80 per cent of the revenue for the Fire Service Commission. Within this amount revenue is derived from three sources. In 2010-11, 57.5 per cent was provided by Fire Service Contributions by local governments; 30 per cent from an Insurance Fire Levy; and 12.5 per cent from a Motor Vehicle Fire Levy. Local government contributions are determined based on land values. The councils are permitted to raise their contributions in any way they choose, which in practice means the revenue is largely raised through council rates, based on land values. Insurance companies must pay a proportion of their premium revenue: 14 per cent for aviation hull insurance; 2 per cent for marine cargo insurance; and 28 per cent for any other class of insurance. The general motor vehicle fire levy is currently $15 per vehicle, and $11 for pensioners’ vehicles.

The Australian Capital Territory has a fixed levy of $101.80 per year for residential properties and a levy on commercial property based on unimproved land values.

In the Northern Territory fire services are funded from consolidated revenue.
iv. TRANSITIONAL ARRANGEMENTS AND THE GOVERNMENT’S FUNDING GAP

If the insurance-based ESL is replaced with a property-based levy, different transitional arrangements could have different implications for Government revenue.

No funding gap would arise with an abrupt change from one system to the other on, say 1 July 2014. But people who renewed their insurance on, say, 30 June 2013 would pay the full amount of the insurance-based ESL in respect of the coming year, and would also be liable to pay the full property levy for the same period. Such people may have an incentive to delay renewal of their insurance, with potential disruption to the insurance industry. Against these concerns, the insurance industry may have commercial incentives to provide a smooth transition, effectively spreading the funding gap over several years through adjustments of premiums.

To ensure a smooth transition, insurance surcharges could be compulsorily phased down by 1/365th per day during the year before the replacement property levy commences. This would minimise incentives for policy holders to delay renewing their insurance. However, this scheme would result in half the normal revenue being collected from insurance companies in the final year of the insurance-based levy, a ‘funding gap’ of around $360 million.

The funding gap could be lessened by starting the phase-down of insurance surcharges six months prior to the introduction of a property levy, and reducing the insurance surcharge over the course of 12 months. Under this arrangement, there would still be a funding gap of around 1/8 of the required revenue (i.e. around $90 million) in the final year before the property levy commences, but this would be recovered the following year. The reduced funding gap for government implies an increased tax burden for some taxpayers during the transitional period. If the property levy were introduced on 1 July 2014, people who renew their insurance that day would pay half the normal amount of the insurance levy and the full amount of the property levy during 2014-15.
Funding our Emergency Services
Discussion Paper July 2012

NSW Treasury and the Ministry for Police and Emergency Services