



22 May 2024

The Hon Daniel Mookhey MLC, Treasurer
The Hon Jihad Dib MP, Minister for Emergency Services

Online submission: <https://www.haveyoursay.nsw.gov.au/reforming-emergency-services-funding-system>

Dear Treasurer Mookhey and Minister Dib

Reforming the Emergency Services Funding system

Thank you for the opportunity to provide feedback on the Consultation Paper. Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of twelve local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC acknowledges the traditional custodians of the land on which we work and live, the peoples of the Darug, Dharawal and Eora Nations.

SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of about 1.8 million, one third of the population of Sydney, including Australia's most densely populated suburbs. SSROC seeks to advocate for the needs of our member councils and bring a regional perspective to the issues raised.

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

Cost recovery – the proposal aims to recover the cost of the selected emergency services but the overall costs appear to be uncapped. There is also scope for analysis of exactly which services or elements should be appropriately funded by property owners and those that should be funded from the State directly.

Equity – removing the levy from insurance and transferring it to property owners would improve equity across the general population. However, the equity of this proposed revenue model between property owners, local government and direct State funding is a different question. SSROC recommends that the local government component should be removed, since Councils have no role in the provision of these services, and therefore no control over their efficiency, cost or effectiveness.

Efficiency – the proposed shift to a property-based model will be more efficient from an economic point of view, and if the local government component and the issuing of the levy is removed, this will enhance overall efficiency of the scheme.

Simplicity – the proposed shift to a property-based model will be easier to understand and to administer.

Sustainability – the shift away from a levy that is based on insurance will provide other wider economic benefits. With lower insurance premiums available, there is a higher incentive to undertake insurance for property owners.

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?

The capital improved value is the preferred model as it achieves the optimal taxation principles of equity. It is closer to reflecting the cost of repairs to a property damaged in an emergency situation.

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

The local government component should be added to the property-based component as this would improve the efficiency of the overall levy system by removing the levying process from Councils that are then funded in most cases by rates and ratepayers. This would effectively enhance the transparency of the levy through a single levy notice, rather than being buried in the costs of Councils and recovered through rates to the same group of contributors.

4. Should different levy rates be applied to:

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

¹There are arguments for and against this proposal. It is a matter for the government to determine rationale for different levies to apply to different property types.

Where there are differences in property types it would make the most sense to the community to use them as the basis for any levies, it is easy to visualise and harder to argue against. A levy based on risk or location is perhaps too subjective.

Considerations for residential include the spread of the burden across a greater base. SSROC understands that there are approximately 20 times more properties categorised or zoned for residential purposes than the combined commercial + farmland uses. Residential properties are probably at greater risk of damage from natural disasters.

Considerations for businesses include the regulatory requirements for risk mitigation that is not placed on residential properties, such as fire safety regulations, building code requirements, work health safety and abatement. However, a fire in a commercial premise is likely to require a greater number of resources to contain than that of a residential property.

The consultation paper is silent on exemptions for public infrastructure or government land. Given the references are aligned with residential, commercial or farmland it is unclear whether the levy is to apply to schools, churches or public infrastructure such as that provided by local councils.

5. What protections are necessary for pensioners and other vulnerable cohorts?

²It is critical that the replacement levy include protection for vulnerable people in our community and SSROC recommends that this should be an essential element to any taxation reforms.

Pensioners, (generally defined as those in receipt of a Pensioner Concession Card), who are the owner and occupier of the property should have a rebate or discount made available to them. The amount of reduction will need to be a matter for government once a levy model has been determined. Consideration to a scaled amount capped at a fixed value is recommended, for example 50% capped at \$150.

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

³We note that the consultation paper proposes full cost recovery model for the levy. SSROC supports this principle: the replacement levy needs to reflect full cost recovery to the citizens of NSW, including the 11.7% local government contribution.

The review should take the opportunity to analyse the full cost of emergency services, and the Reconstruction Authority together with impacts from climate change and rising insurance costs. The review should consider the services provided by the emergency services cluster and their cost

¹ Content is drawn from NSW Rating Professionals draft submission

² Ibid

³ Ibid

drivers and levels of services so that the levy funds the appropriate services by the appropriate contributors.

The Levy (as a State tax) should be collected by Revenue NSW and adjustments to the levy be made as required, in line with the funding needs for emergency services. The original implementation of the Levy mechanism by Councils was expensive and complex, and its ongoing administration is an unjustified cost impost, which is ultimately paid by NSW ratepayers. Any changes to the mechanism that affect Councils would need to be appropriately funded, since rates income is pegged below the level required for cost recovery, and limited options are available to Councils for other revenue streams. Cost abatement will be a matter for the government as there will be full oversight of any runaway costs in service delivery.

The Consultation Paper is silent on how the levy may be payable; for example, in full by a certain date or in part-payments. SSROC recommends that levy-payers be given the opportunity to choose to pay in full or by instalments. Encouragement to pay in full could be incentivised by way of a discount and late payment subject to penalty interest charges.

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

⁴This replacement levy is collected to fund state-controlled emergency services and therefore should be levied and collected by the NSW Government through Revenue NSW.

The process should be end to end, covering all costs including the 11.7% currently funded by Council ratepayers and paid by their Council. SSROC cannot see any justification for Council contributions, and the issue is not covered in the Consultation Paper. The local government share in cost recovery should be discontinued.

Local governments have no control over emergency services, whereas the NSW government would have full control and visibility in setting revenue targets and cost abatement to deliver better outcomes for our community.

Alternatively, the government could allow Councils to keep the amount of ESL they collect from so that each Council can allocate the funds for emergency mitigation purposes across their local government areas. For example, a Council currently collecting an ESL of \$2 million could levy a special rate and restrict the income for expenditure on works, services or activities designed to mitigate the need for future emergency service costs. This could be the repayment of infrastructure loans to address flood mitigation, reconstruction of local fire trails etc.

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?

SSROC believe that this matter is most appropriately discussed between the Government and the insurance industry.

General Issues

SSROC further recommends that the review takes the opportunity to analyse the full cost of emergency services in NSW and the NSW Reconstruction Authority, together with impacts from climate change and rising insurance costs. The review should consider the services provided by the emergency services cluster, their cost drivers and levels of services to ensure that the levy funds the appropriate services by the appropriate contributors.

SSROC is strongly of the view that that Emergency Services Levy is a matter for NSW State Government. Councils have no role in the delivery of emergency services and therefore no control over the efficiency, effectiveness or cost of those services. The funding system reforms should therefore include the termination of Councils' role as levy-collector on behalf of the NSW government.

⁴ Ibid

SSROC also has some concerns about the drivers of the reforms. Firstly, it seems arguably much more likely that the increase in insurances in Victoria were a function of the Black Saturday fires of 2009 than any change to the administration of the ESL. Secondly, we question whether the reform would increase the take-up of insurance: if households cannot afford to take out insurance on their property, charging those households the Levy will not change that situation but would in fact make it worse.

Further to the above, it is our view that the recommendations from the 2017-2018 NSW Parliamentary Inquiry into the Fire & Emergency Services Levy should be reconsidered by the NSW government in conjunction with this review of emergency services funding. In particular, Recommendation 4 which reads as follows:

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.

In addition to this, it is noted that the Emergency Services Levy Amendment (Land Classification) Bill 2024 was introduced to the NSW Parliament by Treasurer Mookhey on 8 May 2024. The object of this Bill is as follows:

Overview of Bill

The object of this Bill is to amend the *Emergency Services Levy Act 2017* to—

- (a) require local councils, for the purposes of evaluating and implementing reforms to the way in which emergency services are funded, to—
 - (i) perform a preliminary classification of all parcels of land in the area of the local council, and
 - (ii) identify if the parcel of land is owned by a person belonging to a class of persons specified in guidelines issued by the Treasurer, and
 - (iii) give the information to the Chief Commissioner of State Revenue (the *Chief Commissioner*), and
- (b) require the Chief Commissioner to keep a register of the information, and
- (c) enable the information to be given to certain persons and used for the purposes of evaluating and implementing reforms to the way in which emergency services are funded, and
- (d) enable the Chief Commissioner to monitor local councils' compliance with the new requirements, and
- (e) enable the Treasurer to issue guidelines for the purposes of the new requirements.

Noting the introduction of this Bill, does this mean that the NSW Government has in fact already determined the methodology that is to apply to land classification across NSW Councils, prior to considering the recommendations from this current Inquiry?

It should also be noted that the recently revised rate peg that is now applicable to NSW Councils (following a review by the IPART), contains an Emergency Services Levy component. At this stage it is unclear from the information we currently have on hand as to how this component of the rate peg will be impacted by any reform to the way in which emergency services are funded. SSROC requests that the NSW Government make any impacts on the revised rate peg methodology clear when considering the recommendations to come from this Inquiry.

Conclusion

In closing, we note that the redesign of the Levy funding system is most appropriately a discussion



for the Government to have with the insurance industry, and then for the Government make the decision informed by that discussion.

This submission has been compiled in collaboration with council finance experts from our member councils. In order to meet the deadline for this submission it has not been possible for it to be reviewed and endorsed by a formal meeting of SSROC. I will contact the Inquiry should any issues arise as a result.

Should you have any further enquiries in relation to this letter, please contact the undersigned by email ssroc@ssroc.nsw.gov.au.

Yours sincerely

A handwritten signature in black ink that reads 'H Sloan'.

Helen Sloan
Chief Executive Officer
Southern Sydney Regional Organisation of Councils