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Emergency Services Levy Project Team
NSW Parliament House
6 Macquarie Street
Sydney NSW 2000

Via upload

NIBA Submission: Reforming the emergency services funding system.

Introduction

The National Insurance Brokers Association (NIBA) and its members welcome the opportunity to provide feedback on the New South Wales government's consultation paper, *Reforming the Emergency Services Funding System*.

NIBA congratulates the New South Wales Government for its decision to reform the Emergency Services Levy (ESL). Since 2017, when the previous decision to remove the ESL was overturned, insurance policyholders have paid \$5.6 billion in ESL on top of their premiums.

Insurance-based taxes such as the ESL significantly inflate premiums. In New South Wales, taxes and levies can increase the cost of insurance for households by up to 30 percent. These increases fall disproportionately on households that face the highest natural hazards risks and, therefore, higher premiums.

In New South Wales, taxation (including GST, stamp duty and ESL) is among the most significant contributors to unaffordability amongst households experiencing affordability pressure.¹ An Actuaries Institute report released last year found that nearly 1 in 8 households across Australia were experiencing affordability pressure. Insurance-based levies have been widely criticised for being inequitable as they force responsible property owners to pay for a service that benefits all of society, whilst those who do not insure their risks continue to receive the benefits. It is worth noting that the rate of underinsurance in New South Wales is almost double that of Victoria.

NIBA believes that the most equitable way of funding the State Fire and Emergency Services is to implement a system under which all property owners share the responsibility for funding emergency services. As the only remaining mainland state to fund their fire and emergency services through insurance levies, New South Wales is well placed to build on the experience of other States in relation to emergency services funding reform.

¹ Defined as paying more than 4 weeks of gross household income towards their home insurance premium.

Questions

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

According to standard taxation principles, a well-designed tax system is characterised by efficiency, equity, simplicity, and transparency. A number of public inquiries, including the HIH Royal Commission, have been critical of insurance taxes because they perform poorly against these basic principles. NIBA supports the government's approach to designing the replacement levy based on the principles of cost recovery, equity, efficiency, simplicity, and sustainability.

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?

NIBA's primary focus is ensuring that the levy is removed from insurance premiums in a manner consistent with the proposed design principles. After consulting with members, NIBA's preferred funding model is one based on capital-improved values or unimproved land values. Using either as a revenue base would ensure that property owners with a higher capacity to pay contribute more towards the funding of emergency services than those with a lower capacity.

In NIBA's view, a model based on gross rental values is unlikely to achieve the desired policy outcomes due to the fluctuating nature of the rental market and the significant financial and administrative costs associated with establishing and maintaining the necessary data.

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

As the new model will transfer responsibility to all property owners, not just those who take out insurance, NIBA recommends replacing the council contribution (which is also levied on property owners) in addition to the ESL.

In recognition of the broader role of the state fire and emergency services, including responding to motor vehicle accidents, search and rescue operations, attending medical emergencies and mass casualty events, etc., NIBA believes retaining the state government contribution is appropriate.

4. Should different levy rates be applied to:
 - different property types, such as residential, commercial or farmland, or
 - properties in different locations?

A flat levy across all properties that share a common value does not take into consideration the level of risk posed to the community by different property types. The Victorian Fire Services Property Levy applies different levy rates to different classes of property (residential, including residential vacant land, commercial, industrial, primary production, public benefit and vacant excluding vacant residential land). In NIBA's view, this model is the most equitable way to distribute the financial burden of funding the state fire and emergency services.

The government should also consider whether it is appropriate to levy an additional charge on extremely high-risk commercial and industrial properties, such as those that use or store hazardous materials, in recognition of the risk they pose.

While some states seek to align the levy burden more closely with the cost of providing services between regional and metropolitan areas, fires, floods, and other emergencies do not adhere to geographic boundaries. Fire and emergency services often attend events out of their respective areas, especially when a large-scale event occurs. Considering this, NIBA does not support differentiating the levy by geographic region.

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

All states that use a property-based model to fund their state fire and emergency services provide a concession to eligible holders of pensioner concession cards.

NIBA supports a concession for pensioners and eligible concession card holders, although recommends limiting any concession to the owner's primary residence. NIBA does not support the ability to defer levy payments, with interest accruing during the deferral period, as in NIBA's view, this is likely to create further financial hardship.

Depending on the revenue base used, the government may consider providing property owners with the flexibility to pay the levy in monthly, quarterly or annual instalments to reduce the financial burden on households and businesses.

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

To reflect the emergency services' changing funding needs and minimise the impact of any spikes in funding requirements, NIBA recommends a rolling triennial funding period with the revenue target set to recover an average annual amount over the triennium.

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

Minimising administrative and collection costs is vital to ensuring the long-term economic viability of the replacement levy.

NIBA recommends that Revenue NSW be responsible for collecting the levy. While equipping Revenue NSW with the resources necessary to calculate and issue levy notices would likely result in higher upfront costs than collection by local councils, ongoing costs will likely be lower. A separate levy notice issued by Revenue NSW would also remove the confusion between the levy and council rates.

If local councils are to collect the levy on behalf of the state government, NIBA recommends that councils be paid a fixed fee based on the number of properties rather than a percentage of the amount collected. This would ensure that the fee reflects the actual cost of the service provided and prevents councils in higher socioeconomic areas from being unjustly enriched compared to councils in lower

socioeconomic areas. Additionally, the levy should be clearly identified as a state government charge on rate notices to avoid confusion.

NIBA looks forward to working with the government on these crucial reforms. Should you have any queries in relation to our submission, please do not hesitate to contact Allyssa Hextell, Head of Policy and Advocacy, at ahextell@niba.com.au

Yours sincerely,



Philip Kewin
Chief Executive Officer
National Insurance Brokers Association

About NIBA

NIBA is the peak representative body for the general intermediated insurance industry. NIBA serves as the collective voice of approximately 450 member firms and 15,000 individual brokers. Our membership encompasses a diverse range of entities, including large multinational insurance brokers, Australian broker networks, as well as small and medium-sized businesses located in cities and regional areas around Australia.

NIBA aims to promote insurance brokers and their role in supporting and advising clients on risk management and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to facilitate understanding of the operation of general insurance markets.