



## Emergency Services Funding – A Greens Position

### September 2012

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The Greens NSW support an equitable and robust scheme for the funding of all Emergency Services: Fire and Rescue, the State Emergency Service and the Rural Fire Service (collectively referred to as "Emergency Services").

In July 2012 the NSW government released a discussion paper titled "Funding Emergency Services", a copy of this can be found here: <http://haveyoursay.nsw.gov.au/esl>. The paper is proposing a change in Emergency Services funding from primarily an insurance levy implemented by the insurance industry to a broad based property levy implemented by councils.

For the Greens, preventing and extinguishing fires, rescuing the injured and responding to disasters is core government work and must be provided to all regardless of their capacity to pay.

Critically the Greens NSW oppose any change to the system that will see homeowners cross-subsidising businesses for the provision of Emergency Services.

#### Key Facts about the Current System

How is the system currently funded?

1. 73.7% of the funding comes from insurance levies (\$700 million in 2011/12)
2. 14.6% of the funding comes from the State Government (\$139 million in 2011/12) and
3. 11.7% of the funding comes from Local Councils (\$111 million in 2011/12)

Who gets what?

1. \$647 million goes to Fire and Rescue
2. \$303 million goes to the Rural Fire Service, and
3. \$80 million goes to the State Emergency Service

Who actually pays the insurance levy?

1. 49% of the levy is paid by businesses
2. 45% of the levy is paid by owners or occupiers of residential properties, and
3. 6% of the levy is paid by owners or occupiers of rural properties.

Who uses the services? The only reliable data is in regards Fire and Rescue NSW.

1. 55% of callouts are to business properties
2. 34% of callouts are to residential properties, and
3. 7% of callouts are to rural properties.

Who doesn't pay the insurance levy?

1. People who don't buy insurance
2. This includes 4.9% of home owners, 76.1% of renters and an unknown % of businesses

The insurance levy is presently paid by insurers based on the percentage of the NSW insurance market that each company has. The bigger their market share the more they pay.



Most insurers pass this on in some way to their clients. Many of them include a notional "emergency services levy" contribution on the products they sell. There is no set percentage required by government.

The existing "rule of thumb" for the insurance levy (which has been established by the Insurance Council of Australia) is 40% on most forms of commercial insurance, 23% for household insurance and 1% for vehicle insurance.

The levy paid on insurance products tends to quite accurately reflect the value of the property being insured (the value of the insured property being a key part of the insurance premium charged by insurers). This means that owners of more expensive properties (who are more likely to be insured in the first place) tend to pay a greater proportion of the current levy than owners of less expensive properties.

### **What are the new funding models proposed by the government?**

The government has only one solution for a new funding model and that is a broad based property tax. The government has not asked for the public to indicate support or opposition to the current funding model. The government's discussion paper is limited to asking should a broad-based property tax replace all existing sources of Emergency Services funding or just the insurance levy component.

The government is only proposing a property tax on the unimproved land value of properties. Applying the tax only to the unimproved value of the land means that poorer, less well developed areas pay relatively more tax than those areas with the most expensive or "improved" dwellings and structures.

### **Who are the winners and losers from the proposed change?**

It is clear that if funding was moved from an insurance levy to a broad-based property tax then it will significantly shift the cost burden from businesses on to home owners. The following figures show how dramatic this cost shifting would be.

#### **Who would pay a broad-based property tax?**

If the broad-based property tax was on a flat fee per property basis then:

1. 80% of the tax would be paid by owners or occupiers of residential properties, and
2. 10% of the tax would be paid by businesses
3. 10% of the tax would be paid by owners or occupiers of rural properties.

If the broad-based property tax was on an ad valorem (sliding scale based on value of the property) rate then:

1. 75% of the tax would be paid by owners or occupiers of residential properties
2. 13% of the tax would be paid by businesses, and
3. 12% of the tax would be paid by owners or occupiers of rural properties.

As stated above, the current insurance levy has:

1. 49% of the levy paid by businesses
2. 45% of the levy paid by owners or occupiers of residential properties, and
3. 6% of the levy paid by owners or occupiers of rural properties.



How much tax would the average property owner pay?

1. If the tax was to replace all existing funding sources - \$267 per annum
2. If the tax was to replace the insurance levy and local government funding - \$230, and
3. If the tax was to replace the insurance levy only - \$201 per annum.

Given that businesses are the beneficiaries of 55% of call outs for Fire and Rescue NSW it is quite unacceptable that they shoulder only 10 – 13% of the cost of providing the service.

It is equally unacceptable that ordinary residents should be paying a new \$267 annual tax to provide an essential service that is currently mostly funded by an insurance levy.

Looked at across the State the government's proposed model delivers hundreds of millions of dollars in benefits to businesses, paid for by homeowners.

### **Cost shifting from businesses to homeowners**

Replacing the existing insurance levy with a flat property tax would<sup>1</sup>:

1. Reduce the contribution by businesses from \$343 million pa to \$70 million pa,
2. Increase the contribution from homeowners from \$315 million pa to \$560 million pa
3. Increase the contribution from rural landowners from \$49 million pa to \$70 pa

Replacing the existing insurance levy with an ad valorem property tax would<sup>2</sup>:

1. Reduce the contribution by businesses from \$342 million pa to \$91 million per annum,
2. Increase the contribution from homeowners from \$315 million pa to \$525m per annum
3. Increase the contribution from rural landowners from \$49 million pa to \$84 million pa

In other words the government is proposing to give businesses a \$273 million annual gift and slug homeowners an extra \$245 million a year to pay for it.

### **Is there an argument for retaining an insurance levy?**

The rationale for funding through an insurance levy is that insurers benefit from Emergency Services. They benefit because Emergency Services prevent or minimise damage to insured properties and therefore reduced payouts by insurers.

### **How do Insurers benefit from Emergency Services :**

Insurers directly benefit from Emergency Services through reduced insurance payouts because:

1. Commercial and domestic fires are put out and/or prevented by fire management
2. Damage from flooding and other natural disasters is minimised by effective emergency intervention, and
3. Bush fire damage is minimised by effective fire fighting and property protection measures.

<sup>1</sup> Based on the 2011/12 budgeted figures

<sup>2</sup> Based on the 2011/12 budgeted figures



## **Does the current model discourage insurance cover?**

The Greens acknowledge that having an additional levy charged on insurance to pay for Emergency Services may well act to discourage some people from taking out insurance.

The evidence suggests that insurance levels are slightly lower in NSW than other states (5% of home owners do not have building insurance in NSW compared to 4% in Victoria and only 2% in SA). Some of the reason for this may be the additional cost due to the levy in NSW.

In relation to home and contents insurance cover there are higher rates of non-insurance. 17.4% of all homeowners do not have home and contents insurance and 76.1% of renters do not have home and content insurance. The government in its discussion paper conflates these two figures and concludes that "36% of NSW households do not have contents insurance". The government then argues that this produces a large free-rider problem, where uninsured people have the benefit of Emergency Services but are not paying for them.

To some extent this is true with 76% of renters not paying insurance and not contributing to Emergency Services. However renters will also not be liable to pay any broad based property tax (this will be paid by owners) and therefore the so-called free-rider problem is not resolved.

The government's position also fails to consider the hard economic truth that people who rent are usually less economically secure and therefore less able to meet the cost of insurance and any new taxes for Emergency Services.

Replacing the insurance levy with an inequitable and poorly-targeted property tax is not a step forward. At no point in the government's discussion paper is there any mention of a need to provide an equitable funding model. This is a significant failing.

## **Should local government be used to collect any new tax?**

If, despite the equity arguments raised against it, the O'Farrell government chooses to impose a broad based property tax in place of the existing insurance levy then it should not fall on local government to collect the new state tax.

Such a substantial increase in rates, even if it is separately noted in any rates notice, will almost certainly produce a significant negative backlash to local government who will not receive any commensurate benefit from the removal of the insurance levy.

If the NSW government is intending to levy, in the words of Tony Abbott, a "great big new tax" then they should at least have the courage to collect it themselves and not force local government to do their dirty work.

## **Conclusion**

The Greens NSW do not support an inequitable broad-based property tax as a funding model for critical Emergency Services. The model is not applied to the NSW Police and it should not be applied to Fire and Rescue, the State Emergency Service or the Rural Fire Service.



David Shoebridge MLC  
Member of the NSW Legislative Council

Emergency Services Funding  
Position Paper  
September 2012

The broad based property tax proposed by the O'Farrell government will deliver hundreds of millions of dollars in savings to NSW businesses. Every cent of these business savings will be paid for by homeowners who will be facing a new state wide annual tax of \$267 a year.

The NSW Greens urge the government to consider retaining the existing insurance levy and not proceed with the proposal to impose an inequitable broad based property tax to fund Emergency Services.

A handwritten signature in black ink, appearing to read 'D. Shoebridge', written in a cursive style.

**David Shoebridge**  
Greens NSW MP  
Emergency Services spokesperson