



C/- Mr A Butcher  
President NSW Revenue Professionals  
PO Box 5  
Menai Central NSW 2234  
Ph: 02 4645 4522 Mobile: 0419 497 899  
Email: [admin@rp.nsw.gov.au](mailto:admin@rp.nsw.gov.au)  
ABN: 38 784 585 350

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NSW Government  
McKell Building  
2-4 Rawson Place  
Haymarket NSW 2000

Dear sir or madam

### **Submission - Reforming the emergency services funding system**

Thank you for the opportunity to make this submission on behalf of the NSW Revenue Professionals Inc. (NSWRP).

The NSWRP is the peak body of NSW Local Government revenue employees and was formed in order to:

- unite in a common organisation, those Local Government employees who are engaged in rating and revenue functions
- improve and elevate the technical and general knowledge of Local Government employees who are engaged in rating and revenue functions
- distribute amongst its members, and the regional NSWRP groups, information on all matters affecting or pertaining to the profession of rating and revenue management within Local Government by way of meetings, newsletters, conferences, or any other method available to the Committee
- promote a professional image of Rating and Revenue practitioners in Local Government New South Wales
- promote quality services to Local Government in New South Wales through the dissemination of best practice
- encourage members to keep up to date with finance related activities and legislative changes through continuing professional development
- identify the skills and knowledge needed by employees and facilitate training and education
- make the expertise of members available to professional bodies and government departments as required.

Overall, we are pleased that the NSW Government is conducting this reform and considering collecting the Emergency Services Levy (ESL) through Revenue NSW together and absorbing the 11.7% council contribution into a holistic property-based levy.

Several NSWRP members were involved in the effort previously to establish the Fire and Emergency Services Levy (FESL) and while the collaboration with Treasury is in our opinion a model of how local government and state government agencies work together on solutions for the community within NSW, it revealed the complexities associated with collection of the ESL by councils.

We have noted a number of references to complications and costs associated with the local council management of a broad-based property tax which became clear due to the overwhelming proposal for reporting and reconciliation. Other mainland states that collect ESL equivalent payments have advised us of similar experiences of extraneous and overly complex reporting requirements placed on councils. We believe any revenue leakage due to errors made by councils would be insignificant in comparison to the reporting and monitoring data that was considered as part of the FESL.

We have proposed an alternative for the 11.7% contribution that would allow councils to retain the amount they currently contribute and fund local infrastructure for risk mitigation works. We believe the correct model would lead reductions in the need for emergency service call outs.

The suggestion to use Capital Improved Values (CIV) is one we support, and although this may take a number of years to achieve a transition or progressive migration should be considered as part of a holistic reform to all land-based taxation in NSW.

We have suggested the use of a base amount split with an ad-valorem rate that allows the biller to split their fixed costs evenly across the contribution base, the ad-valorem component aligns with the taxation principle of equity as the higher the land value (be it unimproved or capital improved) the greater the capacity to pay.

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 in our view too subjective.

We could not find any information in the consultation paper on exemptions for public spaces 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.

It is essential that the replacement levy include protection for vulnerable people in our community and this should be an essential element to any taxation reforms. Inclusion of a rebate scheme for pensioners and avenues to deal with financial hardship should be considered.

We are firm on our belief that this state responsibility should be fully managed end to end by the government which would include the levy, collection and expenditure. This includes the resumption of all control and management of the 'red fleet' assets vested in local councils.

Dealing with accountability of Rural Fire Services (RFS) assets or the 'red fleet' in terms of the ESL is another matter that needs to be considered. We are aware of the current Public Accounts Committee Parliamentary Inquiry into the assets, premises and funding of the NSW Rural Fire Service that closes for submissions on 10 May 2024. We have noted that *'the sustainability of local government contributions to emergency service provision'* is included in the Parliamentary Inquiry's terms of reference.

Our view is that vesting of the red fleet assets with councils does not mean the councils have control and therefore any costs associated with these assets should be part of the state governments ESL funding arrangements. Councils do not control these assets, nor does it control the economic benefits embodied in these assets. Accordingly, there is not a sufficient basis on which to determine the accounting for the red fleet equipment and premises.

Full transparency of the transitional arrangements should be under the auspice of an insurance monitor to ensure the governments desired outcome to reduce the cost-of-living pressures are not simply redirected or absorbed.

In this submission we have responded to each of the eight items for feedback, the responses are provided on the following pages.

## Submission

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

This levy is essentially a tax and the principles outlined align with accepted taxation principles.

The contribution made by councils must be absorbed into the replacement levy for full visibility and transparency. It is inappropriate to hide contributions that are made by local councils in this reform. There have not been arguments put forward in the consultation paper for the council's 11.7% contribution to remain in place and as such it should be removed.

As an alternative, the government may consider allowing councils to keep the amount of ESL they contribute so that each council can allocate the funds for emergency mitigation purposes. To be clear a council that currently collects \$2million 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. By way of example this could be the repayment of infrastructure loans to address flood mitigation, reconstruction of local fire trails etc.

The consultation paper estimates the revenue required to fund emergency services in 2023-24 to be \$1.9billion, \$220million<sup>1</sup> of which is sourced from local councils. Potentially this \$220million could be injected into local infrastructure works to either reduce the risk or help access areas of risk more quickly.

Simple amendments to the *Local Government Act 1993* could be made to allow for the levy and to provide guidance on expenditure outcomes. Over time the levy could improve areas that are presently vulnerable to natural disasters and would be a sustainable approach.

This suggested approach does not take into account that the ESL was originally a direct cost shift to local councils and aside from the revenue (from land rates) being spent in the council area it will not remedy the cost shift situation.

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<sup>1</sup> Reforming the emergency services funding system – 10 April 2024 page 16

## 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?

A shift to CIV is the most appropriate solution for all land-based taxation/levies. Difficulties seen with the distribution of the failed FESL levy cannot be avoided without using CIV as the basis of the calculation. It is our view that the transition to CIV should be fast tracked, and the implementation of the levy delayed until CIV are available.

We agree with the *Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy* recommendation 4 *'that no future NSW Government should move to implement a Fire and Emergency Services Levy unless it considers: 'use of capital improved value of land for calculation of levy'<sup>2</sup>.*

Using a base amount split with an ad-valorem rate gives the biller the opportunity to split their fixed costs evenly across the contribution base, the ad-valorem component aligns with the taxation principle of equity as the higher the land value the greater the capacity the owner has to pay. Fixed charges do not align with the taxation principles and may result in complex bracket creep outcomes.

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

The whole \$1.9billion should be levied and collected by the NSW Government.

We agree with the *Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy* recommendation 4 *'that no future NSW Government should move to implement a Fire and Emergency Services Levy unless it considers: 'the removal of 11.7 per cent contribution by councils'<sup>3</sup>.*

The hidden contribution by local councils must be rolled back into a holistic levy that is clear and transparent to the community. A levy that is partly collected by the state and partly collected by local councils as a hidden tax that needs to discontinue.

## 4. Should different levy rates be applied to:

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

There 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.

We agree with the *Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy* recommendation 4 *'that no future NSW Government should move to implement a Fire and Emergency Services Levy unless it considers: 'the 'better aligned land classifications between council and the Fire and Emergency Services Levy'<sup>4</sup>.*

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<sup>2</sup> Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy

<sup>3</sup> Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy

<sup>4</sup> Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy

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 in our view too subjective and would be difficult to manage.

Considerations for residential is the spread of the burden across a greater base, we believe there are approximately 20 times more properties categorised or zoned for residential purposes than the combined commercial + farmland uses. Residential properties are most likely more at risk of damage from natural disasters.

Considerations for businesses is 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.

We could not find any information in the consultation paper 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?

It is essential that the replacement levy include protection for vulnerable people in our community and 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.

We agree with the *Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy* recommendation 4 'that no future NSW Government should move to implement a Fire and Emergency Services Levy unless it considers:' 'addressing the impact of the Fire and Emergency Services Levy on lower socio economic households who are currently unable to afford building and contents insurance.'<sup>5</sup>

We have noted the statement that the 'reform could include a hardship scheme for people who cannot make levy payments', and believe the word "could", should be changed to must. Although hardship can be subjective and change for individuals from time to time it is an essential part of any taxation reform that may affect vulnerable people in our community. Further, provision to extend the concession for eligible pensioners to deal with cases of hardship should also be considered.

In addition, Service NSW and Revenue NSW have the capacity to apply rebates, concessions and discounts alongside based on changes in government policy. Infrastructure exists to be dynamic in making changes to respond to cost of living through Service NSW.

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<sup>5</sup> Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy

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

We have noted in the consultation paper that this proposed replacement levy is to be full cost recovery and agree with this principle as we have mentioned previously.

The replacement levy needs to reflect full cost recovery to the citizens of NSW, inclusive of the council 11.7% contribution.

Any reservations or anecdote that the levy collected by local councils could result in extraneous costs can be mitigated by Revenue NSW levying and collecting the state tax. Cost abatement will be a matter for the government as there will be full oversight of any runaway costs in service delivery.

We could not see any discussion around how the levy may be payable, for example in full by a certain date or in part payments. In this regard we recommend that levy payers be given the opportunity to choose to pay in full or by instalments. Encouragement to pay in full may be incentivised by way of a discount and late payment subject to penalty interest charges.

A true up in the *'misalignment between the revenue collected and the funding required in a given year could be adjusted in subsequent years'*, is an appropriate funding model.

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

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

We agree with the *Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy* recommendation 3 *'that the NSW Government consider making Revenue NSW responsible for administering any new Fire and Emergency Services Levy.'*<sup>6</sup>

The process should be end to end, inclusive of all costs including the 11.7% currently funded by council ratepayers and paid by their council. As we have outlined previously there have not been any reasons given in the consultation paper validating the need to keep the council contributions in place, and they should be discontinued in accordance with the Portfolio Committee's recommendation.

The NSW government would have full control and visibility in setting revenue targets and cost abatement to deliver a better outcome for our community. Software and information technology support through a single entity rather than 128 councils and the different software suppliers within each council should result in efficiency savings to the NSW Government. Existing infrastructure to resolve customer service outcomes at Service NSW should also reduce the cost-of-service delivery for a holistic replacement levy.

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<sup>6</sup> Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy

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?

We agree with the proposed position in regard to Insurance companies and the government working on a transition away from the current system.

We agree with the *Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy* recommendation 6 *'that the NSW Government revisit the role and funding arrangements for the Emergency Services Levy Insurance Monitor to ensure that, if the Fire and Emergency Services Levy is re-introduced, the Monitor's role continues past June 2020.'*<sup>7</sup>

We support the proposal for a *'period of transition, and any arrangements that may need consideration if council contributions are to be replaced by the levy.'* to be transparent and equitable.

The ESL has been included in the IPART rate peg calculation since the Minister delegated their responsibility in September 2010. For the first time the 2024-25 IPART rate peg will have a separate ESL factor *'to reflect annual changes in council ESL'*<sup>8</sup>, changes were previously captured in the peg based on the average increase in ESL contributions across all councils and not councils' individual ESL contributions.

Accordingly, since 2011-12 the IPART has been including a factor for changes in the ESL, however the government has never allowed for a one-off uplift in council revenue as part of the rate peg calculation. Therefore, funding of the ESL had been a direct cost shift when contributions started and only the annual shift has been recognised. This will be an important matter for the IPART to consider in the event that local councils are no longer required to make their current 11.7% funding contribution.

Thank you for the opportunity to comment on the consultation paper, if you have any questions regarding our submission please do not hesitate to be in touch.

Yours faithfully



Andrew Butcher  
President NSW Revenue Professionals

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<sup>7</sup> Portfolio Committee No. 4 – Legal Affairs Fire and Emergency Services Levy  
<sup>8</sup> IPART Information paper 21 November 2023