REGIONAL CITIES NSW

Regional Cities New South Wales

Emergency Services Discussion Paper

Table of Contents

For more information:

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Emergency Services Levy

Discussion Paper

Introduction

The 2019-20 bushfire season and other recent natural disasters have made clear the urgent need for reform of the architecture, funding and operation of New South Wales' emergency response services.

This has been further reinforced through the Final Report of the NSW Bushfire Inquiry recommendations 20 and 28. These recommendations state the State Government should support local councils in hazard reduction efforts around local communities and infrastructure in regional NSW and ensure local councils are resourced to effectively support local developments on bushfire prone land.

The experience has revealed not only the shortcomings in the management of emergency services (coordination, funding and preparedness and planning at all levels of government), but also the inadequacy of individual preparedness, particularly in terms of home insurance.

This paper focuses specifically on the mounting, opaque and unsustainable burden of emergency services on Local Government.

A new approach is needed, in light of the reviews and focus on what can be learned from the 2019-20 bushfires (along with consideration of broader state financial reform), now is the right time to undertake that transformation. Local government should, and are willing to play their part in this reform.

Current situation

Regional Councils NSW's concerns about the current model of emergency services in New South Wales extend to both the management and funding of services.

Management and operation of emergency services

The current structure of funding and asset management for emergency services in New South Wales is a relic of the past, stemming from when responsibility for these many of these services rested with local councils.

The operation of these services now however, lies with a range of State Government agencies: Fire and Rescue NSW (FRNSW), NSW Rural Fire Service (RFS), Marine Rescue, Volunteer Rescue, Ambulance, Surf Life Saving NSW (SLSNSW) and NSW State Emergency Services (SES). In addition, more than 66,000 volunteers take part in New South Wales emergency services activities.

The lack of integration of these various emergency services entities leads to significant lost opportunity for efficiencies in emergency operational response, coordination and asset management.

In addition, while local emergency services activities and the requisite emergency services assets are controlled and operated by these State Government agencies, those assets are still 'owned', maintained, replaced and funded by local councils. This leaves local councils with a significant financial burden for assets over which they have no control.

Funding of emergency services

The current model of funding for emergency services draws on multiple sources, provides no certainty or transparency and places an inequitable and growing burden on local councils. At present, home owners pay 82% of costs through a levy on home insurance, the State Government contributes 7.3% and Local Governments contribute 11.7%.

The Government itself has previously recognised the problem of the current system and attempted to remedy it with a broad-based property levy, which was withdrawn before implementation.

The same problems continue to exist. The insurance levy means that those who choose not to insure or underinsure gain the benefits of the service without contributing to the cost. NSW has the lowest level of property insurance in Australia and the revelation of the high number of uninsured people who have suffered bushfire devastation illustrates the inadequacy of the current insurance-based scheme.

Beyond this, is the growing financial burden on Local Government, whose costs include:

1. **Local Government contribution**: This is 11.7% of the annual emergency services costs calculated for each Local Government Area, with a one-year lag. Councils fund the contribution from rates revenues; however, the contribution is not separately identified on rates notices and rate payers are unaware that a component of their rates is being passed directly to the State Government. The growing costs of emergency services in some areas has seen the quantum of the contribution grow by more than 50% in two years in some LGAs, while increases to Council rates are limited to the annual rate peg of around 2.6%. E.g. the quantum of the ES contribution for Queanbeyan-Palerang Council will exceed $1.58 million in 2020-21, up from 1.02 million 2018-19.

2. **Emergency Services asset maintenance repair and renewal (MRR):** Councils are required to fund the maintenance and purchase of emergency services assets, despite not controlling or operating those assets. E.g. Port Macquarie Hastings Council faces emergency services asset MRR costs of $361,000 in 2020-2021.

3. **Emergency Services asset depreciation:** Councils carry asset depreciation expenses, despite not controlling or operating the assets. E.g. emergency services asset depreciation will cost Cessnock City Council $116,000 in 2020-2021.

4. **Insurance premium levies:** Councils also pay the emergency services levy on insurance of Council-owned property. E.g. the emergency services insurance levy for Bathurst City Council will cost $82,000 in 2020-21.

These disparate and increasing costs have to be funded by local councils from their limited rate revenues (noting that the NSW State Government has provided assistance grants to offset the Emergency Services levy increases in 2019-20 and 2020-21); meaning the growing costs of emergency services are eating into the funds available for essential council services.

This is placing a strain on the finances and capacity of Councils to provide services to their residents. In addition, it adds to budget uncertainty and threatens the sustainability of many regional councils.

What is needed?

RCNSW believes emergency services operations need to be wholly a State Government responsibility. This will allow the state to ensure adequate funding (recognising the rapid escalation in costs) and have better control and oversight of the assets and activities needed to manage emergency services.

The structure therefore needs to be recast and centralised to account for state management and prepare for the increasing frequency and extent of the emergencies New South Wales will continue to experience, particularly in the face of the changing climate. Bushfire events have already increased in extent, frequency and intensity and NSW own climate modelling (NARCliM) projects an increase in average and severe fire weather into the future.

The Government has already commenced down this path with the creation of Resilience NSW in April 2020. Resilience NSW will lead the whole-of-government prevention, preparedness and recovery effort. Its remit is to oversee and coordinate emergency management policy, service delivery and all aspects of disaster recovery at a state, national and international level.

Regional Cities NSW offer the following suggestions to improve this approach by the recognition that:

- emergency services management is a state responsibility and that it should be managed and coordinated centrally;
- emergency services should be delivered by an integrated agency to:
    - capture significant efficiency gains and
    - increase capacity for more on the ground professional emergency management in the LGAs; and
- emergency services should be funded by the State to provide certainty, and transparency.

Recommendations

The preferred scenario would see reformulation of the funding formula away from an insurance-based ESL and away from council contributions, to a Property-based Emergency Services Levy (PBESL).

The New South Wales Government would make an annual calculation of the funding needed for emergency services on a state-wide basis. The State Government would appropriate funds to cover emergency services costs for which it is wholly responsible i.e. Crown Land, Parks and Forests. The balance of the funding would be raised via a state-wide PBESL collected by Local Government through its annual rates process.

Transitioning away from the insurance-based ESL and centralisation of emergency services responsibility with State Government would have the following components:

1. The introduction of a Property-based Emergency Services Levy (PBESL) on rate notices for disbursement to state government
2. The discontinuation of the annual contribution by local government to Emergency NSW (Dept)
3. The decoupling of the rate peg from the Emergency Services Levy (ESL) annual indexation process (if the local government contribution is maintained)
4. The transfer of the emergency services assets from local government to the NSW government, relieving hazard reduction and depreciation expenses for councils
5. Review and integrate/co-locate emergency service units and assets and operations in regional centres

Emergency Services Funding

1. The introduction of a Property-based Emergency Services Levy (PBESL) on rate notices for disbursement to State Government

The 2019-2020 bushfires illustrated the statewide nature and increasing burden of emergency responses. The current fragmented collection of funding for emergency services through insurance levies, council levies, and consolidated revenue is both ineffective and inequitable.

The transition to a property-based levy system is the opportunity to consolidate the funding sources, determine an appropriate and adequate funding level and make the levy (or collection process) transparent.

While a shift to a PBESL was attempted by the NSW State Government in 2017, it failed due to its perceived inequities and lack of consultation with stakeholders.

NSW remains the only mainland state which does not have a property-based levy to pay for emergency services; Queensland transitioned in 1985, South Australia in 1999, WA in 2003 and Victoria in 2013 (following the 2009 bushfires).

The NSW Government is now examining financial reform and the opportunity exists to revisit the introduction of a PBESL. In its Draft Report of the NSW Review of Federal Financial Relations, the Government's own financial reform expert panel has recommended the abolition of insurance taxes and the application of a levy on property owners to fund emergency services.

The introduction of a single, state-wide, property-based levy to fund emergency services would provide greater fairness and transparency, along with a simpler and more responsive revenue mechanism to meet increasing costs. RCNSW suggests the opportunity for Service NSW to invoice and collect all property taxes (including council rates and the PBESL) should be explored.

It would address the current unfairness of the insurance-based levy, whereby those who choose not to insure or underinsure gain the benefits of the service without contributing to the cost, and; according to the insurance industry, boost home insurance by removing a major financial disincentive.

Both the New South Wales Government and all New South Wales property owners would have clear visibility on the "real" cost of emergency services, rather than it being buried in myriad of different payments and there would be a single, efficient revenue lever to adjust to meet growth in costs.

It would also separate emergency services costs from council budgets, giving councils greater control and certainty over their finances and enabling them to focus on their core functions.

Service NSW's collection of the PBESL through the council rate mechanism will also provide efficiencies, by reducing administrative costs through the elimination of additional collection activities and accounting processes.

2. Discontinue the annual ES contribution by local government to Emergency NSW (Dept)

The implementation of a comprehensive PBESL would eliminate the need for an annual contribution by local governments to emergency services funding.

The current council ES contribution model is inequitable and unsustainable.

Councils have to pay the contribution out of their rate revenue; however, ratepayers have no visibility over the council ES contributions. The cost does not appear as an item on their rates notice and ratepayers are unaware that, as is the case in some LGAs, more than 4% of their annual rates are a state tax being paid directly to the NSW Government.

Further, the annual growth in the cost of the ES contribution far outstrips the allowable increase in rates. Councils cannot recoup ES costs and are therefore having to cut expenditure on core services in order to fund their ES contributions. In the two-year period from 2018-2019 to 2020-2021 Albury City's ES contribution quantum increased 38%, Queanbeyan-Palerang 55%; Bathurst 50% and Wagga Wagga 79.5%.

This State Government has acknowledged the growing financial impact of increasing ES contribution costs on councils' provision of essential services. Over the last two financial years it has provided grants of more than $46 million to councils to help meet the annual increase in the ES cost.

> *Unfortunately, local councils simply cannot afford increased costs in the wake of COVID19, bushfires and drought. These grants will enable local councils to redirect funds to vital services and deliver financial support (through rate and fee relief) for local businesses and communities. (NSW State Government FAQ)*

In an April 2020 media release including a $32.8 emergency services levy support package, the Treasurer acknowledged that councils had been "hard hit financially" and that the grants will "allow councils to provide essential services". The Minister for Local Government went further saying: "This funding injection enables councils to redirect funds to critical core services."

While these grants are welcome, the State Government has made very clear that they will not be ongoing and that emergency services will continue to be funded on a cost sharing basis.

This produces an illogical financial situation. The State Government has acknowledged that Councils cannot meet the Government's growing ES contribution charge without impacting their provision of essential services; the Government is therefore using its own revenue to provide grants to councils, which councils in turn pay back to Government to cover the Government's ES charge.

A single, comprehensive PBESL would cut through these financial gymnastics, providing a transparent and adjustable mechanism for funding of emergency services, eliminating the need for the opaque and increasingly unaffordable council contribution.

3. The decoupling of the rate peg from the Emergency Services Levy (ESL) annual indexation process (if the local government contribution is maintained)

If the State Government maintains the Council ES contribution, RCNSW contend that at an absolute minimum, the indexation of the ES contribution should be decoupled from the annual rate peg process.

This will allow Councils to collect the actual amount of their ESL contribution cost, ending the erosion of funding for other council services and the need for State Government financial assistance. It will also provide greater transparency for NSW ratepayers.

Currently, the increase in the cost of council contributions for emergency services is included in the annual rate peg indexation process with a one-year lag. The rate peg indexation is determined by an annual assessment of costs for a basket of goods and services, the Local Government Cost Index (LGCI), which includes the cost of emergency services. That assessment produces the rate peg level e.g. 2.6%.

This is problematic for three reasons: it is not transparent; it puts unreasonable pressure on council budgets because ES contribution costs are currently outstripping the rate peg assessment; and, the one-year lag in the assessment of the ES contribution creates uncertainty for council budgeting purposes, because they are basing their estimates on the previous year's cost. (The Government has acknowledged the need to provide earlier notice to councils and that the timing issue has been problematic for councils for a number of years.)

The cost of emergency services management in NSW is growing exponentially and is reflected in the increased resourcing of emergency agencies. In the decade from 2009-2010 to 2019-2020, recurrent funding of the RFS, SES and NSWFR increased 66% from $856.3 million to $1420.9 million.

Councils are also experiencing significant increases in the cost of their ES contributions. As stated previously, in the two-year period from 2018-2019 to 2020-2021 Albury City's ES contribution quantum increased 38%, Queanbeyan-Palerang 55%; Bathurst 50% and Wagga Wagga 79.5%.

While the State Government's ES grants for 2019-20 and 2020-21 are welcomed by councils, they have not covered the total increase in the cost of councils' contributions. For example, in 2020-21, Bathurst Council will receive a grant of $274,000, and Queanbeyan-Palerang a grant of $371,000; however, the increase to their ES contributions in 2020-21 (net of these grants) is still anticipated to be 12.9% for Bathurst and 14.05% for Queanbeyan Palerang, well above the 2.6% rate peg increase that councils may pass on to ratepayers.

A 'carve out' and decoupling of the value of the ES contribution increase from the annual rate peg calculation would help provide adequate funding for Council's ES contribution, removing undue pressure on Council budgets and consequently the provision of services.

This minimal reform could deliver far greater transparency by having a separate line item on rates notices for the Council ES contribution, making ratepayers aware that the funds are being collected on behalf of the State Government in order to meet the costs of emergency services.

The Independent Pricing and Regulatory Tribunal (IPART) has recommended a Capital Improved Value (CIV) system of rating property to allow for consistent valuations of property across NSW in both regional and metropolitan areas. Without utilising a CIV system the NSW Government is minimising the risk of inflated valuations in metropolitan areas upon which the PBESL may be based.

Government in its previous 2017 reforms agreed to a separate line item for the property-based emergency services levy. This reform is a logical extension of that proposal.

Emergency Service Assets and Operations

4. Transfer the emergency services assets from local government to the NSW government, relieving hazard reduction and depreciation expenses for councils

As stated previously, RCNSW believes emergency services management should be recognised as a wholly state responsibility and should be managed and coordinated centrally by an integrated state agency.

A single integrated emergency services agency would improve alignment during an emergency, allowing police and councils to focus on their core roles. It would also provide more consistent emergency preparation and management, regardless of the size or capacity of local councils and boost the effectiveness of volunteers through improved facilities, support and training. This integration would capture significant efficiency gains and increase capacity for more on-the-ground professional emergency management in LGAs.

As noted earlier, the NSW Government has already taken the first step in this direction with the creation of Resilience NSW in April 2020. The creation of Resilience NSW recognises that all emergency services should be on the same platform. The current situation where the RFS, the SES and volunteers are not only separate entities, but possess their own infrastructure, leads to inefficiencies at best and needless duplication at worst.

The consolidation of all emergency services into one agency leads logically to the conclusion that emergency assets currently "held" by local councils should be transferred to the State Government.

As stated previously, these assets are already effectively owned and operated by state emergency agencies. It is an historical anomaly stemming from the time when local councils had responsibility for emergency services, that ES assets remain on the Councils books. This means councils are burdened with the costs of maintenance, repair, renewal and depreciation of those assets, without having control of them.

The financial burden to Councils of MRR and depreciation expenses should not be underestimated. For example, Queanbeyan-Palerang Council estimates that its 2020- 2021 ES contribution will cost $1.585 million or 3.1% of its rate revenues. Its combined MRR and depreciation costs of $594,000, are more than one-third again of their contribution cost and take an additional 1.2% of their rate revenues.

Transfer of the assets for will relieve councils of a significant financial burden for assets over which they have no control.

It will also provide greater oversight by the emergency services agency. Over the short to medium term this will allow for greater efficiencies, the removal of duplication and a more strategic deployment and location of these assets

It should also be noted that there are currently state emergency services assets that are not on any property register. This situation arises, because while the Audit Office expects them to be on Councils' register, the assets are actually under the control of the Rural Fire Service and Councils will not register assets they do not control. This means that the NSW Government does not have an accurate idea of what assets it has at its disposal during an emergency.

The critical importance of hazard reduction activities has been highlighted by the recent bushfire experience.

Councils currently have an obligation to perform hazard reduction, which requires specialised equipment and adds additional expense to Council budgets through operations and depreciation.

While councils do currently receive funding for hazard reduction burns, the annual funding process means there is a lack of the flexibility needed to undertake these works when they are needed and when risks warrant further action.

The timing, amounts and designation of which activities are funded is not predictable or consistent. Announcements are often made in late spring or early summer (the beginning of the fire season) and works undertaken before the funding announcement may or may not be not reimbursed. This creates uncertainty for Councils not only in their budget allocations for hazard reduction, but also in the priority and timing of activities, which may or may not be funded by the RFS.

Transfer of responsibility for hazard reduction activities to the State Government and its responsible emergency services agency, will provide greater efficiency, control and coordination, as well as more flexibility to undertake works where and when they are needed (something demonstrated as critical during the recent bushfire experience). Councils may be contracted to undertake or oversee that work locally.

5. Review and integrate/co-locate emergency service units and assets and operations in regional centers.

The 2019-2020 bushfire experience has highlighted the need for greater coordination of

- bushfire management and prevention activities
- cross border activities across local government and indeed state boundaries
- communications both during events and in the recovery period

The transfer of assets discussed above will enable the state government to coordinate both activities and infrastructure in its most effective configuration.

There has been discussion of a hub and spoke model to achieve this. The location of assets and operations in regional centres will allow for greater flexibility and coordination in responding to emergencies.

The state government is in the best position to undertake these coordination activities and the transfer and co-location of these assets will streamline the implementation of this goal.

Conclusion

RCNSW has made these proposals for the centralised management and streamlined funding of emergency services in New South Wales for the benefit of the public good.

The proposals will also relieve the pressures that current emergency services contributions and costs place on councils and enhance their ongoing and sustainable provision of core services.

Most importantly, these proposals will assist an integrated emergency services agency with adequate funding which will not only enhance the state's strategic capacity to respond to more frequent and more intense emergencies as the climate continues to change, but help to deliver more effective and better coordinated emergency responses.

Table of Recommendations

Category	Number	Recommendation
Emergency Service Funding	1	**The introduction of a Property-based Emergency Services Levy (PBESL) on rate notices for disbursement to state government.**
Emergency Service Funding	2	**Discontinue the annual ES contribution by local government to Emergency NSW (Dept).**
Emergency Service Funding	3	**The decoupling of the rate peg from the Emergency Services Levy (ESL) annual indexation process (if the local government contribution is maintained).**
Emergency Service Assets and Operations	4	**Transfer the emergency services assets from local government to the NSW government, relieving hazard reduction and depreciation expenses for councils.**
Emergency Service Assets and Operations	5	**Review and integrate/co-locate emergency service units and assets and operations in regional centers.**

Background

In December 2015 the NSW Government announced its intention to introduce a property-based levy (to be collected by local councils through annual rates) from 1 July 2017, to replace the insurance-based funding of fire and emergency services agencies.

Prior to the reforms and in fact at present, 73.7 per cent of the total emergency services agencies' budgets are collected from insurance premiums, with the remainder coming from the NSW State Government (14.6 per cent) and local governments (11.7 per cent). This is slightly misleading since the state government's share includes the stamp duty collected on the insurance premium, which contributes an additional 7.3% of the levy total. The adjusted figures should be Local Government 11.7%, State Government 7.3%; Insurance premiums 82%.

Taxation reviews such as the Henry Tax Review (Australia's Future Tax System) and the NSW Independent Pricing and Regulatory Tribunal's review of State taxes, found the insurance-based ESL is inequitable, inefficient and lacking transparency.

These studies have recommended its replacement by a property-based levy, which would generate the same revenue but would reduce the cost of insurance, and therefore remove the disincentive to insure property.

The government noted that all mainland States other than NSW have already abolished insurance levies, replacing them with property levies as a means of funding their fire service

In 2016 the NSW Government wrote to councils advising that from 1 July 2017 the insurance-based Emergency Services Levy (ESL) would be replaced by an Emergency Services Property Levy (ESPL), which would bring NSW in line with all other mainland states.

The Government stated that the requirement for councils to fund 11.7% of emergency services in NSW would remain unchanged.

The Government stated that its intention was to create a fairer and simpler way to fund emergency services and at the same time improve the affordability of property insurance.

It further advised that

- councils will be responsible for collecting the levy from land owners on behalf of the state;
- the Government expects the ESPL to appear as a separate line item on council rates notices, distinct from council rates and charges; and
- the ESPL for individual properties will be based on their ESPL classification and land value. Each council will need to classify all land within their boundaries against one of the ESPL property sectors by 31 December 2016.

Features of the ESPL:

- The levy would be calculated by a base amount for each land category plus a variable amount based on land value.
- Councils would collect the ESPL on behalf of the NSW Government.
- Councils would continue to pay a 11.7% contribution through their rates revenue.
- The old ESL paid on top of insurance premiums would be abolished.

- Owners of residential and public benefit land will pay lower rates, and vacant land will have a discount applied.
- State and Local Government properties are exempt from the levy on the basis that they already fund the balance of expenditure required for the services.
- Commonwealth land would be exempt because the State has no power to tax the Commonwealth.

The legislative instrument to effect this change was the *Fire and Emergency Services Act (2017)* which was passed on 30 March 2017 and to come into force on 1 July 2017.

On 30 May 2017 the NSW announced the deferral of the ESPL.

The Premier and the Treasurer said that the anticipated average $47 reduction in charges to insured property owners would not be realised.

Ms Berejiklian said that in the majority of cases across NSW, fully insured people would be better off under the new system, however it had become clear that some fully insured businesses were facing unintended consequences.

“While the new system produces fairer outcomes in the majority of cases, some people – particularly in the commercial and industrial sectors – are worse off by too much under the current model, and that is not what we intended.”

Residential property owners in some Sydney suburbs were also reported to be significantly worse off.

Recent Developments

The Insurance lobby, which favored the 2017 reforms, and sections of the media raised the issue of a property-based levy again in January 2020 [e.g., see editorial Australian Financial Review 4 January 2020]. Treasurer Perrottet responded that the government had no appetite for reform at this time [Australian Financial Review 9 January 2020].

The Draft Report of the NSW Review of Federal Financial Relations, released on 1 July 2020, included the following recommendations in regard to insurance levies:

10. All specific taxes on insurance products, including the Emergency Services Levy in New South Wales, should be abolished and replaced by more efficient and broad tax bases, to improve the affordability and uptake of insurance.

11. To reduce the cost of insurance and enable fairer ways to fund the fire and emergency services, the NSW Government should reconsider applying a levy on property owners and should also consider combining this with a future broad-based land tax. The reform should follow a detailed consultation and modelling process to carefully consider the impacts on different taxpayers.

The expert Review Panel will now undertake consultations on the Draft Report, with the Final Report expected in September 2020.