

Emergency services funding reform

Options paper

April 2026

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

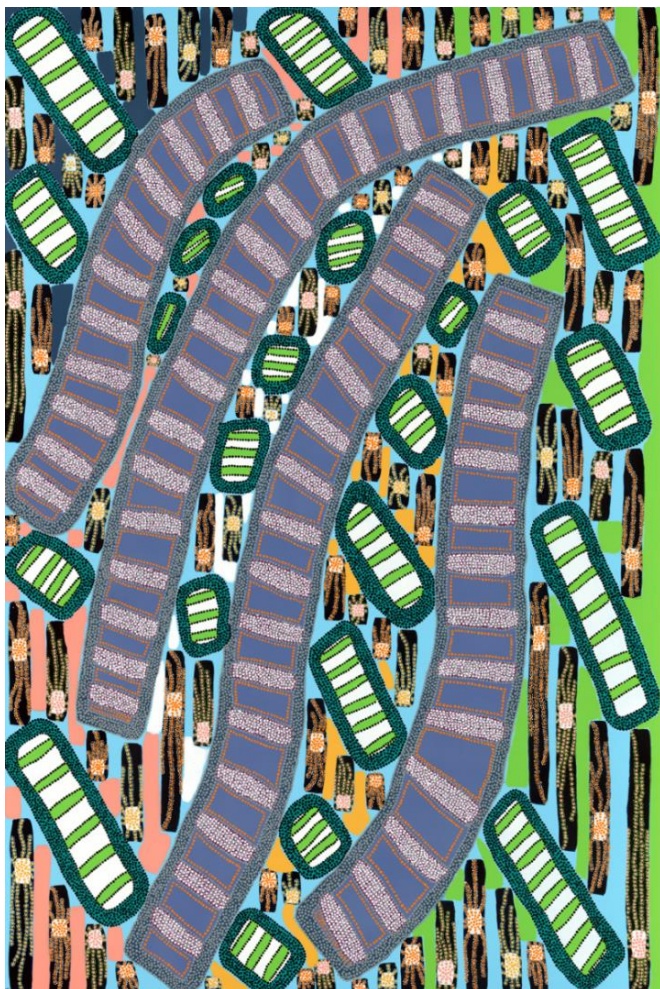
We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:

Regeneration by Josie Rose | Gumbaynggirr Nation



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Executive summary

This paper presents options for replacing the current Emergency Services Levy (ESL) as part of the NSW Government's announced reform of the emergency services funding system. These funding arrangements contribute to the operations of three emergency services agencies – Fire and Rescue NSW, the NSW Rural Fire Service and the NSW State Emergency Service.

The Government is committed to a funding approach that is fairer, more sustainable, more transparent and improves insurance affordability in the face of a changing climate and rising costs.

The current insurance-based ESL places an unsustainable burden on insured households and businesses. The cost of insurance, which has been increasing rapidly, is made greater still by the ESL. This is exacerbating underinsurance and non-insurance.

The key reform objectives for the Government are to:

1. Reduce insurance costs for households by replacing the ESL with a fairer levy spread across all property owners.
2. Protect pensioners and other vulnerable members of the community from further cost-of-living pressures.
3. Ensure a revenue-neutral model that sustainably funds our emergency services agencies.

NSW is the last mainland state relying on an insurance-based levy. Other states have transitioned to property-based levies. These broader community-funded models provide more equitable outcomes and avoid distorting the insurance market.

In 2024, the Government sought community feedback in response to a consultation paper. This included questions on the design principles and revenue base for the replacement levy. The Government has also conducted extensive stakeholder consultation and collected detailed property insurance and land classifications data. The Government affirms that the design principles of cost recovery, equity, efficiency, simplicity and sustainability must guide any annual replacement levy on property owners.

The Government does not have a preferred approach for a new funding model. The options presented in this paper have been prepared for discussion purposes, applying the principles and high-level levy design framework developed by the Government. The high-level levy design framework consists of increasing fixed charges applied to a revenue base of land values. This framework aligns with the reform objectives and levy design principles. It takes into account stakeholder feedback, tax modelling, previous reform efforts and current emergency services funding models in other states and territories. The options are intended to assist the Legislative Assembly Select Committee on Emergency Services Funding Reform and its inquiry into replacement levy model options for the reform.

This framework reflects a community-based design, recognising that the whole community benefits from the availability and provision of emergency services. It ensures all property owners make a minimum contribution for funding emergency services and that contributions are aligned to property owners' capacity to pay.

In contrast, the ESL burden is dependent on individual choices regarding the level of property insurance coverage taken out, the cost of which depends on the unique insured risk each property faces. The design framework also seeks to moderate, to the extent possible, the impact of changes in levy burden between the current system and a replacement levy, as sharp changes in levy burdens can be disruptive as the community transitions to a new system.

The design framework will reduce the variation between contributions made by owners of properties with similar land values. Owners of properties with higher land values will contribute higher fixed charges, with land values broadly reflecting property owners' capacity to pay. The framework also sets both a floor, that is, a minimum contribution, and a ceiling, limiting the variation in contributions within each property sector.

However, some changes in levy burden are unavoidable under a more community-based system that balances equity and simplicity. This will mean some property owners with properties of similar land values may pay more or pay less compared to the current ESL depending on where the property is located, property type, exposure to risk or level of insurance.

Consistent with the Government's concern about capacity to pay, levy concessions will be provided to pensioners, while consideration will be given to the development of adequate hardship provisions to assist those in special circumstances. The Government will also consider an implementation period that is appropriate to transition to the new system. The transition from the ESL to the new system may be fully implemented overnight on a specific start date or phased in over several years to help property owners adjust.

A funding model consistent with the design framework will deliver a significant efficiency improvement and economic dividend by severing the link between the levy and insurance premiums. The reform will make insurance more affordable and remove the disincentive for property owners to take up adequate levels of insurance. A more efficient property levy will boost average incomes and help improve insurance coverage.

The replacement levy options in this paper have a tiered structure with increasing fixed charges based on land values. This means that owners of properties within a pre-defined range of land values would be subject to a fixed levy amount, with owners of properties in a higher land-value range being subject to a higher fixed levy amount. The differences in levy amounts and the number of land value thresholds would depend on the levy model option.

The five levy model options in this paper vary in complexity and distributional impacts:

- **Option A:** Four tiers of fixed charges
- **Option B:** Four tiers of fixed charges with greater escalation
- **Option C:** Six tiers of fixed charges
- **Option D:** Fixed charges with regional discounts
- **Option E:** Fixed charges with surcharges by property type.

These levy model options are not exhaustive and are presented as instructive examples of the high-level levy design framework. While a levy model option would apply to each financial year, specific levy amounts and land value thresholds would change. This will reflect changes in the annual

funding required for emergency services agencies and changes in land values over time. Box 1 outlines some of the considerations in comparing options in this paper.

Box 1: Key data highlights and design considerations from modelling

This analysis is based on 2023-24 data primarily collected from insurers, local councils and Value NSW (see section 2.3, chapters 3 and 6).

All levy model options improve the funding system and align with design principles differently

All levy model options are expected to deliver a significant efficiency improvement and economic dividend by removing the disincentive for property owners to adequately insure their properties. All options have been designed to ensure cost recovery and sustainability in funding NSW's emergency services and constitute a simpler, more transparent and more certain approach for property owners. However, the options presented prioritise the design principles differently. This highlights the importance of considering trade-offs between the design principles of equity and simplicity along with expected changes in levy burden between the current ESL and the replacement levy.

Around 55% of insured properties in NSW would have incurred a lower levy under the replacement levy compared to the ESL

The cost of the ESL to an individual property owner depends on many factors affecting insurance premiums, particularly the risk their property faces, and on the choice of insurance cover. Comparatively, a more community-based replacement levy, using land values as a measure of capacity to pay, would have significantly less variation in charges across owners of properties with similar land values. The change in the revenue base, from insurance to land values, means that a replacement levy would see some property owners necessarily pay more and some pay less relative to the ESL (see section 3.3 and chapter 6).

Insured residential property owners would have saved an average of \$65 per year under a replacement levy

Under all levy model options, the average replacement levy for the residential sector is expected to have been \$65 lower than the average ESL burden for insured property. The average levy burden for owners of insured property in the farm and public benefit sectors would have been similar, while average burdens in the commercial and industrial sectors would have been higher under the replacement levy (see sections 3.3 and 4.3). This reflects an assumption under the design framework that homeowners should contribute no more than the current revenue share raised from residential property.

Each levy model option impacts cohorts within property sectors differently

All levy model options canvassed in this paper present different ways of distributing the levy burden across properties within property sectors while maintaining the aggregate burden for each property sector. This means that while the overall number of owners of insured properties expected to pay less under a replacement levy changes only slightly between levy model options, the impact of different options on specific cohorts of properties within each property sector is more pronounced. Variations in the distribution of land values and ESL costs across sectors and cohorts contribute to these differences in levy burden impacts (see chapter 6).

Owners of properties with lower land values are more likely to pay less under a replacement levy

Across each property sector, owners of insured properties with lower land values would be more likely to pay less under the replacement levy than they do under the ESL compared to owners of higher-value insured properties. All levy model options were designed with the consideration that owners of properties with the lowest land values are more likely to have a lower capacity to contribute. For these properties, modelled levy amounts are set to broadly align with median ESL costs for properties of a similar land value. On average, around 62% of owners of insured residential properties in the bottom 75% of land values are estimated to have paid less under a replacement levy than under the ESL. This compares to around 42% of owners of insured residential properties in the top 25% of land values (see chapter 5 and section 6.2).

Owners of properties outside Greater Sydney are more likely to pay less under a replacement levy

Owners of insured residential properties located outside Greater Sydney would have been around twice as likely to have paid less under a replacement levy than under the ESL compared to owners of insured properties in Greater Sydney (see sections 3.2, 3.3 and 6.2). Generally, insured properties outside Greater Sydney have lower land values than those within Greater Sydney but their owners pay higher ESL costs, in part reflecting a higher exposure to risk. A more community-based replacement levy with increasing fixed charges is expected to rebalance this and result in more equitable outcomes based on land values as a measure of capacity to pay.

Owners of houses are more likely to pay less under a replacement levy

Under the current ESL, owners of insured units are found to generally contribute less relative to owners of insured houses with comparable land values. A replacement levy using land values as a measure of capacity to pay would result in more equitable outcomes as owners of properties with similar land values would pay the same levy amount. Owners of units are more likely to see an increase in levy burden and owners of houses are more likely to see a reduction in levy burden when compared to the ESL (see sections 3.2, 3.3 and 6.2).

Savings can be significant under a replacement levy while increases in levy burdens are capped

A key benefit of models based on fixed charges on land values is that levy burdens are capped. This means that any increase in levy burden relative to the current ESL is also capped at the relevant levy amount that applies to each property. Conversely, reductions in levy burdens compared to the current ESL system can be significant (see chapter 5 and section 6.3).

Changes in levy burdens are likely to be smaller for owners of properties with lower land values

Owners of insured properties with lower land values will typically face relatively more moderate changes in levy burdens compared to the changes faced by owners of insured properties with higher land values. This is intended to minimise the impact of the replacement levy on property owners with less capacity to pay while ensuring all property owners make a fair minimum contribution. The potentially more significant changes in levy burdens for owners of insured properties with higher land values reflects a key trade-off between the need to raise sufficient revenue while moderating the impact of changes in levy burdens (see chapter 5 and section 6.3).

Greater escalation in levy amounts can lead to larger changes in levy burdens

All levy model options presented achieve a greater alignment to property owners' capacity to pay, as measured by land values, than the current ESL. However, capacity to pay is only one

consideration in the design framework. Greater alignment to capacity to pay would require lowering replacement levy amounts for properties with lower land values and charging owners of higher-land-value properties more. However, this greater escalation in levy amounts could result in larger changes in levy burdens compared to the ESL, with owners of lower-land-value properties more likely to see greater reductions in burdens and owners of higher land-value properties more likely to see larger increases (see chapter 5 and section 6.3).

1 Introduction

In November 2023, the NSW Government announced its intention to remove the Emergency Services Levy (ESL) and reform the way the state's emergency services are funded. The key reform objectives are:

1. Reduce insurance costs for households by replacing the ESL with a fairer levy across all property owners.
2. Protect pensioners and other vulnerable members of the community from further cost-of-living pressures.
3. Ensure a revenue-neutral model that sustainably funds our emergency services agencies.

Under the current system, NSW's emergency services are funded by the ESL on insurance companies (73.7%), local councils (11.7%) and the State Government (14.6%). This funds the costs of Fire and Rescue NSW, the NSW Rural Fire Service and the NSW State Emergency Service.

The cost of emergency services is expected to increase with climate change and the associated growing instances of natural disasters. This will result in an increase in the required ESL, which in turn will make insurance more unaffordable.

The Government released a consultation paper in April 2024 outlining the need to reform the emergency services funding system and presented four revenue base models and other levy design features for stakeholder feedback.¹

The Government has undertaken stakeholder engagement while collecting data from insurers and local councils to inform the development of levy model options and supporting analysis.

1.1 Purpose of the paper

This options paper provides an update on reform progress and details five instructive examples of levy model options for a replacement levy.

These options have been developed to assist the Legislative Assembly Select Committee on Emergency Services Funding Reform and its inquiry, using a high-level levy design framework of increasing fixed charges applied to a revenue base of land values. This framework is guided by the design principles of cost recovery, equity, efficiency, simplicity and sustainability, as set out in the 2024 consultation paper.

The levy model options presented in chapter 5 vary depending on the prioritisation placed on particular design principles. Common to all options presented under this new approach is the design to make the replacement levy simpler and more equitable compared to the current insurance-based system. This more community-based design acknowledges that the whole community benefits from emergency services. It seeks to ensure that all property owners make a minimum contribution to

¹ The consultation paper is available at: <https://www.nsw.gov.au/sites/default/files/noindex/2025-04/emergency-services-funding-reform-consultation-paper.pdf>.

funding our emergency services and that the replacement levy is aligned to property owners' capacity to pay. In contrast, the current ESL burden is highly dependent on individuals' choices on the level of insurance coverage they take out for their property and the unique risk their property faces. The design framework also seeks to moderate, to the extent possible, the impact of changes in levy burden between the current system and a replacement levy, as sharp changes in levy burdens can be disruptive while the community adjusts to a new system.

The options paper is structured as six chapters:

- **Chapter 1** outlines the Government's reform objectives, the case for reform, a new approach for emergency services funding and funding approaches across Australian states and territories.
- **Chapter 2** provides an update on reform progress and presents the high-level levy design framework for the replacement levy that underpins the new approach.
- **Chapter 3** presents an overview of the property insurance and land classification data that supports the modelling, along with key insights into the distribution of land values and the current burden imposed by the ESL across property sectors.
- **Chapter 4** provides details of key levy design parameters for levy concessions and transition arrangements, and assumptions for the revenue target, property sectors and sectoral contributions.
- **Chapter 5** sets out five example options for the replacement of the ESL, developed in line with the design framework.
- **Chapter 6** indicates the estimated distributional impacts of different levy model options across property sectors and cohorts of property owners.

1.2 The case for reforming the funding of emergency services

The Government is committed to reforming the way emergency services are funded to ensure a fairer, more sustainable and transparent system that meets the growing demands of a changing climate and rising emergency services costs.

The ESL is only paid by owners of insured property

In NSW, the burden of paying for emergency services falls mainly on households and businesses that insure their property, contents and other goods with a licensed insurer rather than those who self-insure or do not insure.² People and businesses that do not insure their properties or other goods do not pay the ESL and make no direct financial contribution to the funding of emergency

² Non-insurance is equivalent to self-insurance in terms of ESL contributions. Levels of self-insurance and non-insurance are likely to vary across property sectors and locations. Drivers of these choices include affordability issues for households and businesses and the capacity for large businesses to manage risk within existing business structures. Insurance is required in certain circumstances, such as for strata-titled properties or as a condition of a mortgage.

services.³ NSW is the last mainland Australian state to rely on a levy on insurance to fund the cost of its emergency services agencies.

The ESL is not fairly shared among property owners

Even for properties that are insured, the burden of paying the ESL does not necessarily reflect a property owner’s capacity to pay. For example, properties subject to flood risk incur higher ESL contributions but these properties are generally in areas of the state with low land values and often owned by households with a lower capacity to pay.

A key reform objective for the Government is to spread any replacement levy across the community in an equitable way. Protecting pensioners and vulnerable members of the community, who may be more exposed to issues of insurance affordability or capacity to pay a replacement levy, is also a key reform objective.

The ESL increases underinsurance and non-insurance

The ESL increases the price of insurance by adding to the base premium, thereby increasing the price on which the goods and services tax (GST) and stamp duty are levied. Table 1 shows that the ESL has increased the cost of residential property insurance by 18% on average since 2017-18 and by 34% for non-residential property.

Table 1: Percentage increase relative to base premiums from the ESL

Insured property	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average
Residential	22%	17%	19%	21%	15%	17%	18%	17%	18%
Non-residential	34%	36%	35%	39%	29%	31%	34%	30%	34%

Source: NSW Treasury calculations based on aggregated data by insurance class for insurance premiums and ESL-attributed charges collected by Revenue NSW. Estimates include the direct impact of the ESL on base premiums and the flow-on impact of the ESL as it increases the GST and stamp duty payable on insurance policies.

According to the latest available data, the proportion of homeowners without building insurance in NSW is among the highest in Australia.⁴ Insurance costs for households have increased significantly in recent years, with premiums rising by 48% between 2017-18 and 2024-25, nearly double the 25% increase in the Consumer Price Index over the same period.⁵ NSW is estimated to have home insurance premiums and affordability stress above the national average, below only Queensland and the Northern Territory, which tend to be exposed to more frequent and severe natural disasters.⁶

³ All property owners make a small indirect contribution to the cost of emergency services agencies through local government rates.

⁴ NSW Treasury calculations using 2015-16 data supplied by the Australian Bureau of Statistics, Household Expenditure Surveys, as discussed in the 2024 consultation paper, and according to analysis based on 2016-17 and 2017-18 data conducted by the Australian Competition and Consumer Commission (ACCC) for the Northern Australian Inquiry Report published in 2020.

⁵ NSW Treasury calculations based on Australian Bureau of Statistics, Consumer Price Index, Australia, December Quarter 2025.

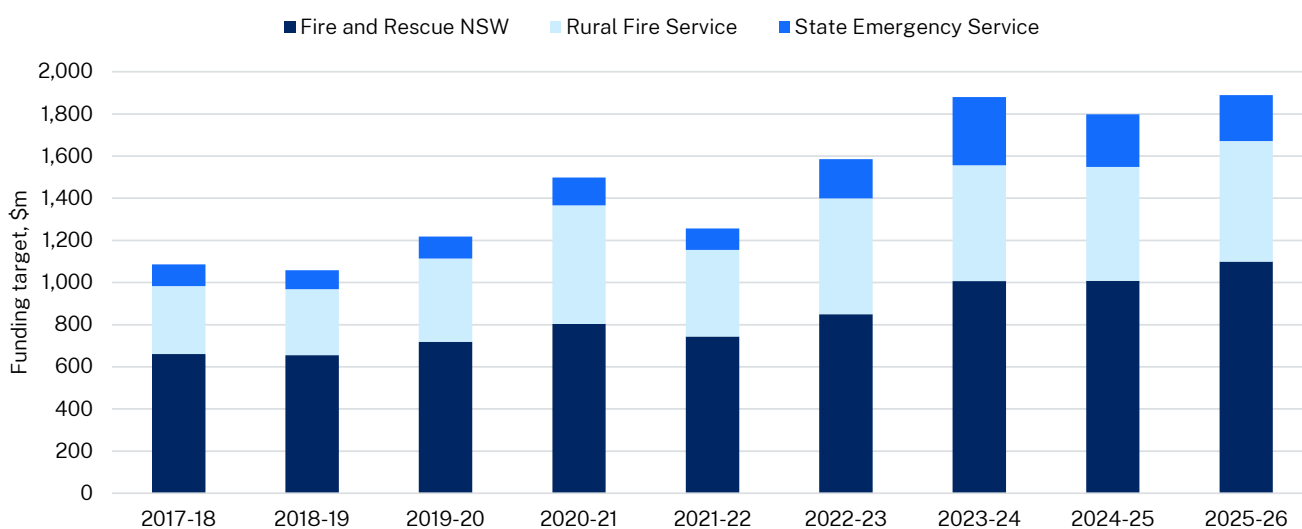
⁶ Actuaries Institute, Home Insurance Affordability Update, August 2024.

As emergency services costs continue to rise, underinsurance and non-insurance is expected to increase, not only leaving more property owners at risk, but increasing the ESL burden for those taking out property insurance. A key reform objective for the Government is to reduce insurance costs for households and move to a more sustainable revenue base for funding the state’s emergency services agencies.

Climate events are increasing emergency services demand and costs

In 2025-26, the funding target for emergency services agencies totalled \$1,890 million, an average increase of 8% per year since 2017-18 (see figure 1).

Figure 1: Funding target for emergency services agencies



Source: NSW Treasury calculations based on funding target inputs provided by emergency services agencies.

In the coming decades, climate change is expected to drive more frequent and severe natural disasters and extreme weather events across NSW. This is expected to increase demand for emergency services and raise the costs of emergency services provision.

Modelling conducted for NSW Treasury suggests that the expected annual cost of damage to property and infrastructure in NSW due to floods, bushfires, storms and cyclones is projected to rise by around 70% between 2024-25 and 2065-66, in real terms.⁷

NSW Treasury research has extrapolated from these projected changes in the expected annual cost of damage from disasters, along with economic growth factors such as population and income, to quantify the projected funding requirement for NSW emergency services agencies. The ESL is projected to increase by 164% in real terms between 2024-25 and 2065-66. Impacts associated with climate change, including changes in hazard risk and property exposure to weather events, are estimated to account for around 41% of this increase.⁸

⁷ Estimates are based on catastrophe loss modelling conducted by Finity Consulting Pty Limited in 2025.

⁸ Impacts associated with climate change are projected using agency-specific growth factors. These are calculated based on modelled changes in ‘average annual loss’ estimates across major hazard types and adjusted to reflect differences in each agency’s operational focus across hazards.

This is why a key reform objective for the Government is to ensure a revenue-neutral model that sustainably funds our emergency services agencies.

Removing the ESL will boost incomes and insurance affordability

The impact the ESL has on decisions to not take out appropriate levels of insurance makes the ESL one of the most economically damaging taxes in NSW. It is estimated that, over time, replacing the ESL with a more efficient property levy would add around \$1.8 billion to the NSW economy, in today's terms, or the equivalent to increasing annual household incomes by around \$300 on average.⁹

NSW Treasury research has examined what today's households would experience if exposed to the climate conditions projected for 2065-66. Under this counterfactual scenario, average residential insurance premiums would be expected to increase by around 8% across NSW, reflecting higher expected risk to property and a higher ESL. Within this scenario, removing the ESL would be expected to more than offset this increase, resulting in average premiums around 15% lower than if the ESL were retained.^{10,11}

Lower insurance premiums would improve insurance affordability. If 2065-66 climate conditions were to occur today, removing the ESL is estimated to reduce the number of NSW households experiencing severe insurance affordability stress by around 125,000, compared with retaining the ESL.^{12,13} More than 80% of these households are in the lowest-income quintile, highlighting that the positive impacts of removing the ESL are expected to be concentrated amongst the cohort of households with the lowest incomes. And of these, around 125,000 households no longer

⁹ NSW Treasury research based on analysis commissioned to the Centre of Policy Studies of Victoria University in 2025. Analysis is based on the replacement of the ESL with a broad-based tax on land that raises the same amount of revenue and assumes the same levy structure applies to all properties.

¹⁰ NSW Treasury research based on modelling conducted by Finity Consulting Pty Limited. The modelled scenario applies projected 2065-66 climate conditions to the 2024-25 economic and demographic context of NSW to isolate the impacts associated with climate change. The analysis assumes no changes to property replacement costs or to household incomes – only climate changes. This is a different scenario analysis to that produced by the Australian Prudential Regulation Authority (APRA) in its *Insurance Climate Vulnerability Assessment*, published in March 2026. APRA's analysis applies 'severe but plausible stress conditions' to understand the risks that an erosion of home insurance affordability may pose to the resilience of the Australian financial system.

¹¹ The 18% average increase in residential base premiums reported in table 1 is calculated by comparing the ESL (plus the associated GST and stamp duty charged on top of the ESL) to base premiums only. In contrast, the estimated 15% reduction in residential premiums referred to here is measured against the full premium paid by policyholders, which includes the base premium and all taxes. Because the full premium is a larger amount, the percentage reduction looks smaller even though the same components – the ESL and its associated GST and stamp duty – are removed.

¹² Severe insurance affordability stress is defined as households needing four weeks or more of income to pay for full home insurance. This analysis is based on modelling by Finity Consulting Pty Limited. This methodology is also employed in the Actuaries Institute's 2024 report *Home Insurance Affordability and Home Loans at Risk* and APRA's 2026 *Insurance Climate Vulnerability Assessment*.

¹³ Applying 2065-66 climate conditions to today's insurance premiums would result in an increase of around 61,000 households experiencing severe insurance affordability pressure. Removing the ESL, under this scenario, would therefore more than offset this increase.

experiencing severe affordability stress, 45% are located outside Greater Sydney despite these areas accounting for just 38% of the housing stock.¹⁴

Within this counterfactual scenario, removing the ESL would also be expected to increase insurance uptake, with around 20,000 additional households estimated to take up building (including flood cover) and/or contents insurance in the absence of the ESL.

1.3 A new approach to funding emergency services

This paper outlines, for illustrative purposes, a new approach to funding the emergency services agencies in NSW based on the developed high-level levy design framework. Shifting funding away from an insurance-based levy to a property-based levy with a broader community-funded design can provide more equitable outcomes and lead to a system that is more transparent and simpler to understand.

The new approach will also deliver a significant efficiency improvement, driving the economic dividend of the reform, and a more sustainable revenue source to meet the growing demands of a changing climate and rising emergency services costs.

At its core, the new approach rests on three changes:

- *Who contributes* – as our emergency services agencies serve the entire community, a broader base of property owners should contribute rather than just those who take out insurance. Furthermore, property owners should contribute more in line with their capacity to pay, in contrast to the current system based on risk to property and choice of insurance coverage. This will more fairly spread the burden of funding and provide a more sustainable base of contributors.
- *Choice of levy base* – a levy using land values as a revenue base will better align with a property owner's capacity to pay and not discourage insurance coverage. A more efficient levy will boost average incomes and help improve insurance affordability and insurance coverage.
- *How the levy is structured* – increasing fixed charges based on land values ensures that there is a minimum contribution from property owners, higher fixed charges for those with more capacity to pay, and to the extent possible, moderation of the impact of changes in levy burdens. This structure provides a simpler, more transparent approach that creates certainty for property owners for how much levy contributions will be.

While the reform broadens the base of those who contribute, it also considers the need to moderate the impact on certain groups. Safeguards include:

- concessions to protect pensioners

¹⁴ Notwithstanding these impacts across NSW, the analysis indicates that for properties most exposed to climate-related risks, removing the ESL alone may not be sufficient to fully unwind the erosion in insurance affordability resulting from higher underlying premiums.

- concessions for owners of vacant land to reflect lower emergency services needs of vacant land
- potential hardship provisions to assist those in special circumstances.

In addition, arrangements to temporarily reduce levy payments to assist those with significant changes in levy burden could also be included, for example, in transition arrangements to the new system.

1.4 Emergency services funding in other states

Shift to property-based levies across Australia

The shift from an insurance-based levy to a property-based levy to fund emergency services has been undertaken across most Australian states and territories. This began with Queensland in 1984, followed by South Australia in 1999, Western Australia in 2003, and Victoria in 2013. The Australian Capital Territory (ACT) implemented a property-based levy in 2007, although it did not have an insurance-based levy prior to that.

These reforms reflect a nation-wide trend towards more equitable, community-based and efficient funding models, with NSW and Tasmania the exceptions.¹⁵

The previous government attempted to reform the ESL, starting with a consultation paper in 2012 and a proposed Fire and Emergency Services Levy (FESL) announced in December 2015. That proposed levy was structured as a fixed charge plus a variable rate (ad valorem rate) based on land values for each property sector. It was designed to be budget-neutral, with concessions provided for vacant land and pensioners. However, the reform was deferred indefinitely in May 2017. A NSW Parliamentary Inquiry into the FESL (the FESL Inquiry) was conducted and its report released in 2018.

The FESL Inquiry proposed several recommendations including that NSW Treasury continue to work to minimise the number of 'known unknowns' and conduct a full and transparent modelling of any new FESL. This options paper provides detailed analysis and modelling to consider potential levy model options.

For a replacement levy, the FESL Inquiry recommended consideration of the use of capital-improved values and the inclusion of motor vehicles as part of the revenue base, the replacement of contributions from councils, and better-aligned land classifications between councils and the levy. It also recommended considering differential levy rates, fixed charges, discounts and caps, and addressing the impact of a proposed levy on lower socio-economic households that are currently unable to afford insurance.¹⁶

¹⁵ While Tasmania also retains an insurance component, only around 40% of its revenue comes from insurance, with the remainder sourced from a property-based levy and a motor vehicle registration levy. In NSW, the ESL contributes 73.7% of the funding of emergency services agencies.

¹⁶ NSW Parliament. Legislative Council. Portfolio Committee No. 4 - Legal Affairs & Borsak, Robert. 2018. <https://www.parliament.nsw.gov.au/lcdocs/inquiries/2454/Final%20report%20-%20Fire%20and%20Emergency%20Services%20Levy%20-%20November%202018.pdf>

Interstate comparison of emergency services funding systems

Emergency services funding systems vary across Australian states and territories, reflecting differences in policy approaches and needs. All jurisdictions apart from the Northern Territory impose a levy to fund their emergency services, albeit with differences in design and scope.

A key element of difference between jurisdictions is the choice over the revenue base used to apply the levy. Queensland uses a system of fixed charges based on land use and level of fire services available in the area, while other jurisdictions apply a combination of fixed charges and ad valorem rates based on property values. Victoria and South Australia use capital-improved values, the ACT uses unimproved land values, and Western Australia and Tasmania base their levies on gross rental values, which are closely linked to capital-improved values.

Levy rates typically vary by property category, with some jurisdictions basing rates on land use (for example, Victoria, Western Australia, South Australia and the ACT), land use and property characteristics (for example, Queensland) or location and service levels (for example, Queensland, Western Australia and South Australia).

The range of agencies and services funded through levies also varies. In 2025, Victoria broadened its scope to add Triple Zero Victoria, Victoria State Emergency Service, the State Control Centre, Emergency Management Victoria, Emergency Recovery Victoria and Forest Fire Management Victoria. While most states only fund fire and emergency services through their levy, the ACT also uses the levy to fund policing expenditures.

Further details of the levies used to fund the emergency services of each Australian state or territory, other than NSW and the Northern Territory, are summarised in table 10 in appendix A.

2 Reform progress and design framework

Since the release of the consultation paper in April 2024, the Government has advanced preparations for emergency services funding reform in NSW. This includes consideration of the feedback received from 106 submissions in response to the consultation paper, as well as the appointment of the NSW Independent Pricing and Regulatory Tribunal (IPART) as the Insurance Monitor overseeing the transition from the ESL to the replacement levy.

A comprehensive data collection process has also been progressed to develop a matched property database to enable detailed analysis of levy model options. A high-level framework has been developed, for illustrative purposes, to guide the design of the replacement levy and ensure the different levy model options achieve the reform objectives.

2.1 IPART Insurance Monitor

To oversee the transition from the ESL to the replacement levy, the Government legislated the *Emergency Services Levy Insurance Monitor Act 2024* (the ESLIM Act). This legislation appointed IPART as the Insurance Monitor in June 2024. IPART's functions encompass monitoring the impact of the reform on insurance prices, assessing whether insurers over-collect the ESL and accepting undertakings to refund customers. They also have powers to compel information and to take enforcement action against insurers.

Since its appointment, IPART has been:

- advancing a framework for assessing over-collections of ESL and how insurers may issue refunds
- establishing its approach to monitoring, investigating and deterring prohibited conduct such as false or misleading representations or engaging in price exploitation relating to the reform
- designing accessible contact channels for customer complaints including cross-referrals with other agencies and regulators
- refining methodologies to evaluate changes in insurance coverage attributable to the reform and to measure the impact of the reform on the insurance industry.

Quarterly reports have been published as required under the ESLIM Act, providing transparency on IPART's activities and preparations.¹⁷

2.2 Comprehensive data collection

To gather a comprehensive database to inform the development of replacement levy model options, amendments to the *Emergency Services Levy Act 2017* (the ESL Act) were made to provide the Treasurer the authority to require insurance data at the policyholder level from insurers. On

¹⁷ IPART quarterly reports available at <https://www.ipart.nsw.gov.au/insurance-monitor-quarterly-reports>

9 August 2024, the Treasurer issued letters to insurance companies to request this data. Over the period ending in January 2025, NSW Treasury worked closely with more than 130 insurers, underwriters and brokers, and the Insurance Council of Australia, to obtain data on over three million insurance policies. This data included ESL amounts charged on individual policies, allowing for a detailed understanding of how the levy is currently distributed across insured property.

Further amendments to the ESL Act enabled the collection of land classifications from local councils. The *Preliminary Land Classification Guidelines 2024* were issued on 26 September 2024 to guide local councils on classifying land into property sectors and identifying the pensioner status of property owners. A working group comprising Local Government NSW, NSW Revenue Professionals and relevant government agencies was formed to assist local councils with classifying and collecting preliminary land classification data for every property within each council's local government area.¹⁸ The preliminary land classification process ended in February 2025.

NSW Treasury has undertaken to validate the data collected from insurers and local councils, which includes matching, at a property-level, information on property insurance, land classification, land values from Value NSW and other data. The resulting matched property database has enabled detailed tax modelling and distributional analysis to be presented in this options paper.

2.3 Developing a high-level levy design framework

The Government has developed, for illustrative purposes, a high-level design framework of increasing fixed charges based on land values for the replacement levy. This framework reflects the Government's reform objectives and levy design principles for the new funding system. Stakeholder feedback, tax modelling, previous reform processes and current emergency services funding systems in other states and territories, have also informed this framework.

Levy design principles

Originally proposed in the 2024 consultation paper, the following principles have been used to develop the framework:

- **Cost recovery:** A levy set at a level sufficient to fund the cost of emergency services and only collect the revenue required to replace current funding sources removed under the reform.
- **Equity:** A levy that ensures all property owners contribute towards the funding of the state's emergency services, that levy payments increase as capacity to pay increases, and that moderates the impact of changes in levy burden from the current ESL.
- **Efficiency:** A levy that minimises unintended impacts on economic decisions, including on the take up of appropriate levels of insurance, and provides the largest economic dividend from the reform.

¹⁸ This included 128 NSW local councils and the Lord Howe Island Board.

- **Simplicity:** A levy that is simple and transparent, easy to understand, calculate and pay, with low compliance costs to minimise the time and effort of levy payers.
- **Sustainability:** A levy that has the capacity to reliably provide sufficient funds to meet the ongoing needs of the state's emergency services over the long term.

Headline features of the high-level levy design framework

The two headline features of the design framework are a levy structure of increasing fixed charges and a revenue base of land values. These provide a straightforward and fair way to calculate the levy, using an efficient and well-understood revenue base, as outlined below.

Levy structure - tiered fixed charges

The replacement levy options in this paper have a tiered structure with increasing fixed charges based on land values. Increasing fixed charges means that owners of properties within a pre-defined range of land values will be subject to a fixed levy amount, with owners of properties in a higher-land-value range being subject to a higher fixed levy amount. The differences in levy amounts and the number of land value thresholds will depend on how the levy design balances the principles of equity and simplicity. This is discussed in detail in chapter 5.

Increasing fixed charges is a relatively simple levy structure that provides a transparent mechanism for calculating levy contributions and ensures that contributions increase broadly with owners' capacity to pay as measured by land values. This approach supports a fair distribution of contributions among property owners who benefit from the availability and provision of emergency services.

This tiered levy structure draws on the benefits from the approaches used in other states and territories. As noted in section 1.4, Queensland uses a system of fixed charges based on land use and level of fire services available in the area. While this approach provides simplicity, particularly for the residential sector, it is less reflective of individual property owners' capacity to pay. Other states and territories that have a property-based levy apply a combination of fixed charges and ad valorem rates based on property values. While using an ad valorem rate will more closely align with a measure of capacity to pay, it can be harder for levy payers to understand and may produce unfair outcomes at the bottom and top ends of the land value distribution.

All options detailed in chapter 5 aim to balance the principles of equity and simplicity with the following key considerations:

- **All property owners make a minimum contribution:** Unlike under the ESL, which is based on property risk and choice of insurance cover, the replacement levy is designed so that all property owners make a fairer contribution to the funding of the state's emergency services agencies. For owners of properties with lower land values, levy amounts will broadly align with the current median ESL contribution from this cohort of property owners. This minimum contribution recognises that owners of properties with lower land values are, in general, more likely to have a lower capacity to contribute and provides them with a smaller change in levy burden compared to owners of high-value properties.

- **Levy amounts increase for properties in higher land value ranges:** Land values broadly reflect property owners' capacity to pay. Increasing levy amounts with land value thresholds is designed to support more equitable and fairer contributions. This is discussed further below.
- **Moderate impacts on levy burdens per property:** The top-tier levy amounts, which apply to owners of properties with higher land values, are designed to ensure that sufficient revenue is raised under the replacement levy while, at the same time, moderating the impact of the replacement levy compared to the ESL.

A tiered structure of fixed charges will mean that owners of properties within the same land value thresholds will pay the same levy amount. This could result in owners of properties with different land values contributing the same amount, despite having potentially different capacities to pay. While this approach may be viewed as a less equitable outcome, it aims to be simpler, more transparent and provide greater certainty for property owners.

As discussed in more detail in chapters 3 and 6, any replacement levy model based on increasing fixed charges on land values will reduce the variation in contributions for owners of properties with similar land values. This means that some property owners with properties of similar land values but differing locations, property types, exposure to risk or levels of insurance may pay a replacement levy above or below what they pay under the current system. While these changes in levy burden will impact property owners, they are ultimately unavoidable under a system that seeks to balance equity and simplicity and delivers a significant efficiency improvement and economic dividend.

Revenue base - land values as a measure of capacity to pay

The replacement levy options in this paper are based on property land values. This is an efficient and sustainable basis to collect the levy. It can be practically implemented in a reasonable timeframe using the current system of land valuations administered by the NSW Valuer General.¹⁹

In NSW, land values are already used as the revenue base for land tax and council rates. They are also the only revenue base on property currently available and in use in NSW. This makes land values a tried and tested revenue base and one that is relatively well understood and used by property owners.

Compared to the ESL, a levy based on fixed charges on land values will improve the efficiency of emergency services funding, which is the key driver of the economic dividend of the reform.²⁰ It will sever the link between the levy and insurance premiums, which will help improve insurance affordability and remove the disincentive for property owners from taking up adequate levels of insurance.

¹⁹ Land values are annually estimated based on factors such as the highest and best permitted use of the land (as determined by zoning and planning restrictions), land size, shape, features, location and views, and comparable property sales.

²⁰ As discussed in the consultation paper of April 2024, several Australian studies, including the 2010 Henry Review and the 2020 Thodey Review, have found that the ESL is one of the most inefficient taxes in NSW. Replacing the ESL with a more efficient and broad-based tax would improve average incomes and the affordability and uptake of insurance.

As discussed earlier, land values are used as a measure of property owners' capacity to pay. In practice, there is no single measure that serves both as an efficient and practical revenue base and that accurately represents a property owner's capacity to pay.

This is why, in developing a levy structure based on increasing fixed charges, consideration was given to ensuring that all property owners make a fair minimum contribution while moderating the impact of changes in levy burdens compared to the current system. As discussed in more detail in section 4.1, to provide a more equitable outcome for vulnerable property owners, consideration will also be given to the development of adequate hardship provisions for those who cannot make levy payments after meeting basic living expenses, in addition to specific concessions for pensioners.

Alternative revenue bases considered in the 2024 consultation paper, such as capital-improved values or gross-rental values, have not been prepared as options in this paper as they are not part of the high-level levy design framework. These alternative revenue bases would not enable the reform to be implemented in a reasonable timeframe. Value NSW has estimated that developing an alternative property valuation for over 3.5 million properties in NSW could take up to five years. This would delay the reform and introduce complexity, as levy payers would require time to understand and trust a new valuation method. Further, using either capital-improved values or gross-rental values as the revenue base would impose a tax on capital improvements. Such a tax disincentivises homeowners and businesses investing in their properties and would reduce the economic dividend of the reform.

While a property's risk of exposure to natural disasters and other hazards may impact its land value, risk itself is not be a determinant of replacement levy amounts under the design framework.²¹ A replacement levy that considers the risk profile of individual properties would be impractical to implement as it would depend on a wide range of factors, including property location and use, building design and quality of materials or the maintenance level of the property. Such an approach would also be complex to administer and hard to understand for levy payers, and would be less likely to reflect a property owner's capacity to pay.

Although emergency services respond to motor vehicle incidents, motor vehicles have not been included as a revenue base due to the relative inefficiency of vehicle taxes as noted in the 2024 consultation paper. Based on 2023-24 data, motor vehicle insurance only contributed 6.4% of ESL revenue (see table 4). Excluding motor vehicles will provide a simpler revenue base solely comprising land values. The ESL and associated stamp duty on motor vehicle insurance is assumed under the design framework to be incorporated into the non-residential sector contribution.

Levy design parameters

In addition to the levy structure and revenue base, the high-level levy design framework includes a range of design parameters. Together, these form a framework that ensures cost recovery,

²¹ In much the same way as a property's market value, land values will capitalise the expected future direct costs of natural disasters the property may be exposed to. For example, properties located in flood plains or near forested locations at risk of bushfire are likely to have lower land values compared to properties not exposed to these risks, all else constant.

promotes equity, supports efficiency, delivers simplicity and secures sustainability in funding NSW's emergency services. Key levy design parameters are:

- **Levy concessions** – concessional treatment for certain property types or owners, including for pensioner-owned residential properties and vacant land.
- **Transition arrangements** – the approach for transitioning from the ESL to the replacement levy.

For modelling purposes, assumptions are made for other design parameters:

- **Revenue target** – the total amount of revenue to be collected through the replacement levy.
- **Property sectors** – NSW properties will be classified into different sectors for the purpose of applying differentiated levy charges.
- **Sectoral contributions** – the share of the revenue target to be collected from each property sector.

These levy design parameters are detailed in chapter 4 with design parameter assumptions consistently applied in the levy model options presented in chapter 5.

3 Detailed property and insurance data

The Treasurer initiated a comprehensive data collection process requiring insurers and local councils to provide property-level data to inform analysis of different levy model options.

NSW Treasury obtained data on over three million insurance policies. This data included ESL amounts attributed to individual insurance policies. Revenue NSW collected preliminary land classification data for every property, including its property sector, whether the land is vacant land, and whether the owner and occupier is a pensioner.

NSW Treasury has undertaken a rigorous data-validation and data-matching process to accurately attribute detailed information on ESL costs, land classifications and land values to individual properties across NSW. The resulting matched property database provides information about the distribution of land values and ESL costs per insured property within each property sector and across relevant property cohorts, including pensioner-owned property, property type, vacancy status and location.

3.1 Matching insurance and land classification data

Developing a matched database of 2.1 million properties

Preliminary land classification data from local councils identified a total of 3.4 million privately-owned properties in NSW in 2023-24. These properties were classified into five sectors – residential, commercial, industrial, farm and public benefit.²² Residential, commercial and industrial sector properties were sub-classified as vacant land if specified criteria applied.²³ Residential properties owned and occupied by pensioners were also identified.

NSW Treasury matched land values received from Value NSW to each property identified by local councils. Address information was then used to match individual properties with insurance information provided by insurers, underwriters and brokers. Data identifying property owners without insurance was not obtained for this analysis and therefore the number of privately-owned properties without insurance, the type of property, location or land value is not available.²⁴

NSW Treasury undertook to assign ESL costs across individual properties, resulting in a database of 2.1 million properties with matched insurance data. This involved working with insurers to allocate ESL costs associated with complex insurance policies covering multiple properties and apportioning them to individual properties. Similarly, an effort was made to accommodate properties with insurance policies from multiple insurers. For these properties, insurance policies were combined to ensure the total amount of ESL costs were reflected for the relevant property.

²² An additional 136,511 properties were classified by local councils as government-owned land as part of the preliminary land classification. Chapter 4 outlines how government-owned land is assumed under the design framework to be exempt from the replacement levy and has therefore been excluded from the analysis.

²³ Vacant land is defined as land where there are no buildings or structures.

²⁴ Property owners who do not take out insurance, and therefore pay no ESL, will see their levy burden increase under a replacement levy.

Table 2 provides a breakdown of the property stock across the five property sectors. Of the 3.4 million privately-owned properties in NSW in 2023-24, around 90% were residential properties. A total of 412,562 properties, or about 13% of the residential stock, were identified as pensioner-owned and occupied. Separately, a total of 87,003 properties were sub-classified as vacant land, including 79,586 vacant residential properties and 7,417 vacant non-residential properties.

Table 2: Property stock, land value and data matching rates per property sector, 2023-24

Property sector	Land value (\$ billion)	Number of properties	Proportion of stock	Vacant in sector	Matching rate
Residential	\$2,136.2	3,081,885	90%	3%	67%
Non-residential	\$559.1	332,143	10%	2%	26%
Commercial	\$184.3	140,445	4%	3%	28%
Industrial	\$131.8	60,559	2%	4%	25%
Farm	\$208.6	109,638	3%	Not applicable	25%
Public benefit	\$34.5	21,501	1%	Not applicable	23%

Source: NSW Treasury calculations based 2023-24 data from local council preliminary land classifications, Value NSW and insurers, underwriters and brokers. Matching rate is the percentage of properties where ESL costs could be assigned. Excludes government-owned land.

High matching rate for the residential sector provides a reliable basis for levy design

Of the 3.1 million residential properties identified by local councils, NSW Treasury was able to match detailed insurance information to around 2.1 million properties. This resulted in a data-matching rate of 67% of properties (as reflected in table 2).²⁵

Within the residential sector, matching rates differ between houses and units, and between properties located in and outside Greater Sydney.²⁶ Address information for many unit blocks was incomplete, which reduced the ability to match insurance data to land classifications and land values. This lower matching rate for units partly contributed to a lower matching rate for Greater Sydney, where a larger share of dwellings are units compared to the rest of NSW.

Differences in matching rates between houses and units, between properties located in and outside Greater Sydney, and between properties with different land values (see below) mean that the sample of matched data does not perfectly represent the total stock of insured residential properties. Property cohorts with relatively lower matching rates than other cohorts are, as a result, less represented in the matched sample. Despite this, the sizeable sample of matched data for the residential sector provides the best available database for detailed analysis of the distribution of land values and ESL costs and forms a valuable basis to extrapolate for the broader residential sector.

²⁵ Information on properties that are not insured or are self-insured is not available. While these properties are not matched, it is not possible to separately identify properties that are not insured or self-insured from properties for which insurance data is available but is not possible to match.

²⁶ The matching rate for houses was 73%, compared to 52% for units. The matching rate for properties located within Greater Sydney was 65%, while the matching rate for properties located in the rest of NSW was 70%.

Matching rates for the non-residential sectors are lower

The average matching rate for the non-residential sectors was 26%. Non-residential matching rates were impacted by the higher share of complex insurance policies covering multiple commercial and industrial properties and more cases of incomplete information on individual property addresses.

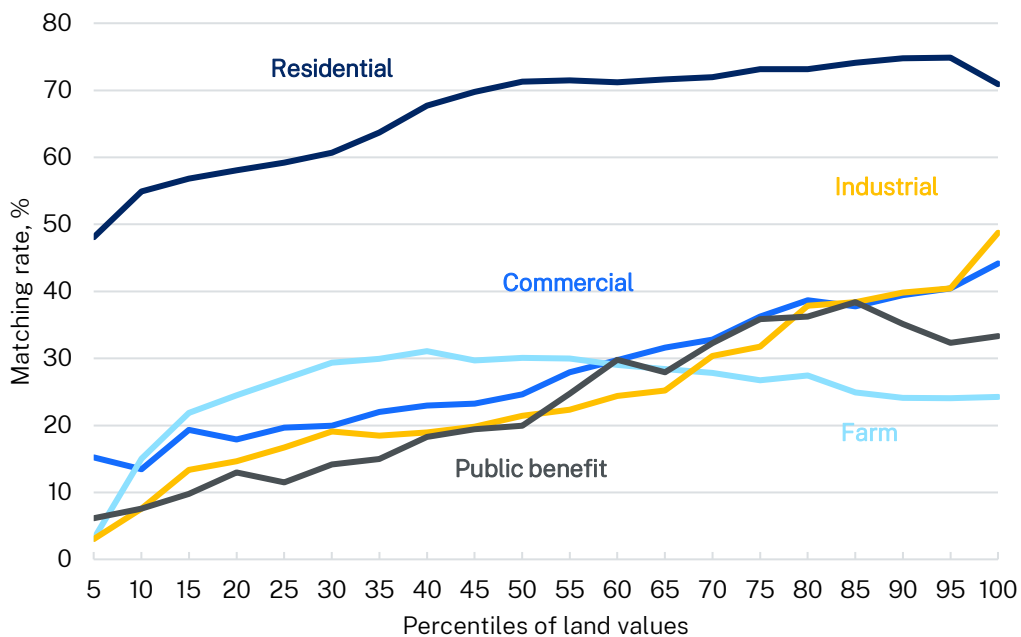
Lower matching rates for the non-residential sector means that less comprehensive information is available for these properties compared to the residential sector. Differences in matching rates between property sectors and between property cohorts within each sector introduces a bias to the modelling results. This bias is difficult to measure and address effectively.

Notwithstanding, the matched database produced by NSW Treasury forms a significant sample of data across all property sectors and cohorts and provides detailed information on the distribution of ESL costs across a number of dimensions such as land values, property location and property type. These samples of matched data provide a valuable foundation for modelling and analysis of different levy designs, as discussed in the following chapters.

Properties with lower land values tend to have lower matching rates

As illustrated in figure 2, matching rates tend to be lower for properties with lower land values. This is slightly more prominent in the commercial, industrial and public benefit sectors.

Figure 2: Matching rate by property sector and land values



Source: NSW Treasury calculations based on 2023-24 data from local council preliminary land classifications, Value NSW and insurers, underwriters and brokers. Matching rate is the percentage of properties where ESL costs could be assigned.

It is not possible to determine the cause of this finding. It could be that properties with lower land values are less valuable to insure or that the owners of these properties are less able to afford insurance, meaning a greater share of lower-valued properties would have no insurance data available. For the residential sector, this finding is also consistent with the difficulties discussed earlier in matching insurance data for units with incomplete or insufficient address information. Because units tend to have lower land values, a lower matching rate among units would also result in lower matching rates for low-land-value residential properties.

Lower matching rates among properties with lower land values can affect the quality of the matched sample and may bias the comparative analysis of different levy model options, particularly for the non-residential sector. The implications of varying matching rates among different cohorts of properties should therefore be considered when assessing levy model options in chapter 5 and the distributional analysis in chapter 6.

3.2 Distribution of land values

Levy design should consider differences in each property sector's land value distribution

Based on 2023-24 data, each property sector is found to have a significantly different distribution of land values, as illustrated in table 3. The average commercial land value was almost double the average residential land value and the average industrial land value was more than three times the residential average. However, the median land values across the three sectors were similar, with the residential sector having a slightly higher median land value.

Table 3: Distribution of land values by property sector, 2023-24

Property sector	Average land value	Median land value	10 th percentile land value	90 th percentile land value
Residential	\$693,158	\$489,000	\$129,960	\$1,410,000
Non-residential	\$1,683,415	\$570,180	\$50,200	\$3,270,000
Commercial	\$1,312,363	\$346,000	\$36,246	\$2,410,000
Industrial	\$2,175,768	\$486,000	\$51,220	\$3,310,000
Farm	\$1,902,658	\$1,000,000	\$204,000	\$4,010,000
Public benefit	\$1,602,427	\$363,000	\$18,900	\$3,260,000

Source: NSW Treasury calculations based on 2023-24 data from local council preliminary land classifications and Value NSW.

This outcome was driven by differences in the distribution of commercial and industrial properties compared to residential properties. On the one hand, there was a large group of commercial and industrial properties with relatively low land values compared to the residential sector. On the other, a significant number of commercial and industrial properties had relatively high land values compared to the residential sector.

A levy structure of tiered fixed charges on land values requires the setting of land value thresholds to determine where a levy tier ends and another commences.²⁷ Setting different land value thresholds by sector to accommodate the differences in each sector's distribution of land values aligns the replacement levy with the design principle of equitable contributions by property owners. More details on the levy model options, including setting land value thresholds, are provided in chapter 5.

²⁷ As detailed in chapter 5, a tier is defined by two land value thresholds and one levy amount. For example, a hypothetical tier could apply a levy of \$200 to properties between \$500,000 and \$1,000,000 in land value.

Levy design should also consider cohort impacts, including by property type and location

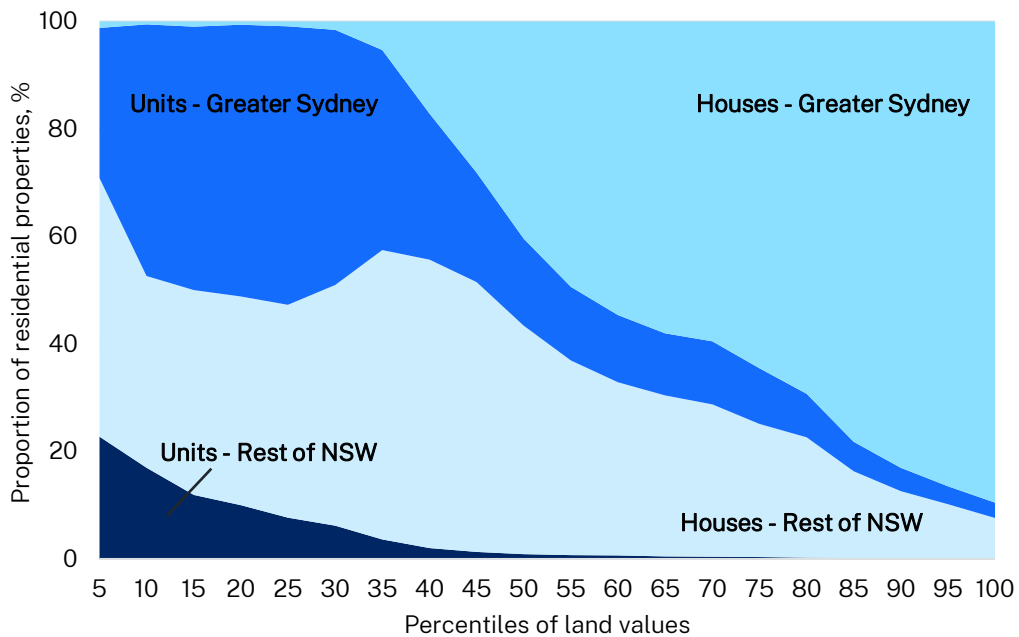
Within the same property sector, specific cohorts of property may have significantly different distributions of land value. As illustrated in figure 3, properties located outside Greater Sydney tend to have lower land values compared to properties in Greater Sydney. Similarly, residential units are more likely to have lower land values than houses in similar locations.

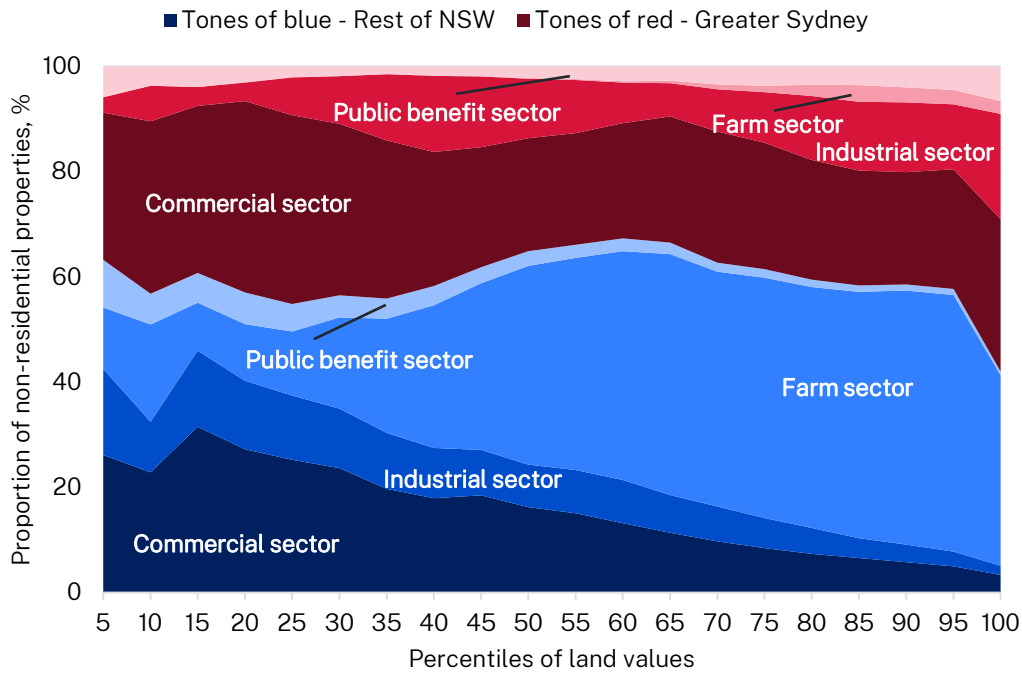
Therefore, a levy model of increasing fixed charges will mean, all else constant, that properties outside Greater Sydney and units are expected to pay a lower levy on average compared to properties in Greater Sydney and houses, respectively.

As illustrated in figure 3, the farm sector, located almost exclusively outside of Greater Sydney, makes up a significant portion of non-residential properties with the highest land values. For the commercial sector, a significant portion of properties both in and outside Greater Sydney have relatively lower land values than other non-residential properties.

These differences in land values across property type, location and property sector should be considered when assessing levy model options and their distributional impacts.

Figure 3: Property stock by land value, location and property type per property sector, 2023-24





Source: NSW Treasury calculations based on 2023-24 data from local council preliminary land classifications and Value NSW. Units are properties that are part of a strata or company title.

3.3 ESL costs per property

Almost half of ESL revenue is charged on residential property insurance

The allocation of the ESL among insurers is based on each insurer’s market share of particular types of insurance. Insurers pass this cost on to policyholders by adding it to base premiums. The way the ESL is distributed across insurance segments and policies is determined by individual insurers and is not regulated by the Government.²⁸

Table 4 shows the share of ESL revenue insurers attribute by class of insurance. This information is reported annually by all registered insurers to Revenue NSW. In 2023-24, 49.2% of ESL revenue was reportedly charged on residential property insurance. In the same year, 44.4% of ESL revenue was charged on non-residential property insurance and 6.4% on motor vehicle insurance.²⁹ These figures broadly align with the average shares between 2017-18 and 2024-25. The proportion of ESL revenue from charges across individual non-residential property sectors is not reported by insurers.

²⁸ The ESL Act requires insurers to pay a contribution in respect of premiums for relevant classes of insurance. Insurers generally recover their contributions by imposing a charge on policyholders’ premiums. Insurers are required to disclose any amount of the premium that is attributable to this charge.

²⁹ The analysis of different levy model options throughout this paper uses 2023-24 data as the base year to align with the matched insurance and property classification data collected from insurers and local councils.

Table 4: Share of ESL revenue by class of insurance

Class of insurance	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average
Residential	58.3%	49.1%	49.3%	49.5%	46.0%	47.1%	49.2%	50.6%	49.9%
Non-residential	36.5%	44.4%	43.8%	44.4%	47.2%	46.8%	44.4%	43.6%	43.9%
Motor vehicle	5.2%	6.5%	6.9%	6.2%	6.8%	6.1%	6.4%	5.8%	6.2%

Source: NSW Treasury calculations based on aggregated data by insurance class for ESL-attributed charges collected by Revenue NSW. Residential includes insurance of residential property (including home, building, contents and landlord) and personal valuables (classes 2 and 3 under Schedule 1 of the ESL Act). Non-residential includes any insurance of property (not including residential), crops and livestock, machinery or aviation hull (classes 1 and 5-8). Motor vehicle insurance includes motor vehicle and motorcycle insurance (class 4).

ESL costs per property vary across property sectors

Total ESL costs per property include the ESL charged on property insurance as well as the GST and stamp duty charged on top of the ESL. For example, suppose the ESL charged on an insurance policy is \$100. GST, at a rate of 10%, would add an additional \$10 and stamp duty, at a typical rate of 9%, would add a further \$9.90. Total ESL costs on this insurance policy would therefore add up to \$119.90.

The average ESL cost per property in the residential sector is significantly lower than across other property sectors. Based on the matched database for 2023-24, as reported in table 5, the average ESL cost per property was \$283 for residential properties and around \$1,756 on average across non-residential properties.³⁰

Table 5: ESL costs per property, including GST and stamp duty charged on top of the ESL, 2023-24

Property sector	Average ESL cost	Median ESL cost	10 th percentile ESL cost	90 th percentile ESL cost
Residential	\$283	\$240	\$71	\$491
Non-residential	\$1,756	\$470	\$55	\$2,540
Commercial	\$1,500	\$432	\$30	\$2,751
Industrial	\$4,410	\$792	\$87	\$5,956
Farm	\$772	\$450	\$152	\$1,350
Public benefit	\$1,327	\$285	\$19	\$2,601

Source: NSW Treasury calculations based on 2023-24 matched data on insurance, land classification and land values for a sample of NSW properties. ESL costs include the ESL charged on insurance and the associated GST and stamp duty payable on top of the ESL. Estimates in this table exclude ESL costs associated with motor vehicle insurance.

The commercial and industrial property sectors have the highest average ESL costs per property. The average cost per industrial property is nearly 16 times higher than the average cost in the

³⁰ ESL costs per property are calculated based on matched property-level data on insurance costs and land classification. This data predominantly covers property insurance. An estimate of ESL costs *including* those associated with ESL on motor vehicle insurance is used in chapter 6 to better compare the replacement levy with the current burden imposed by the ESL on households and businesses.

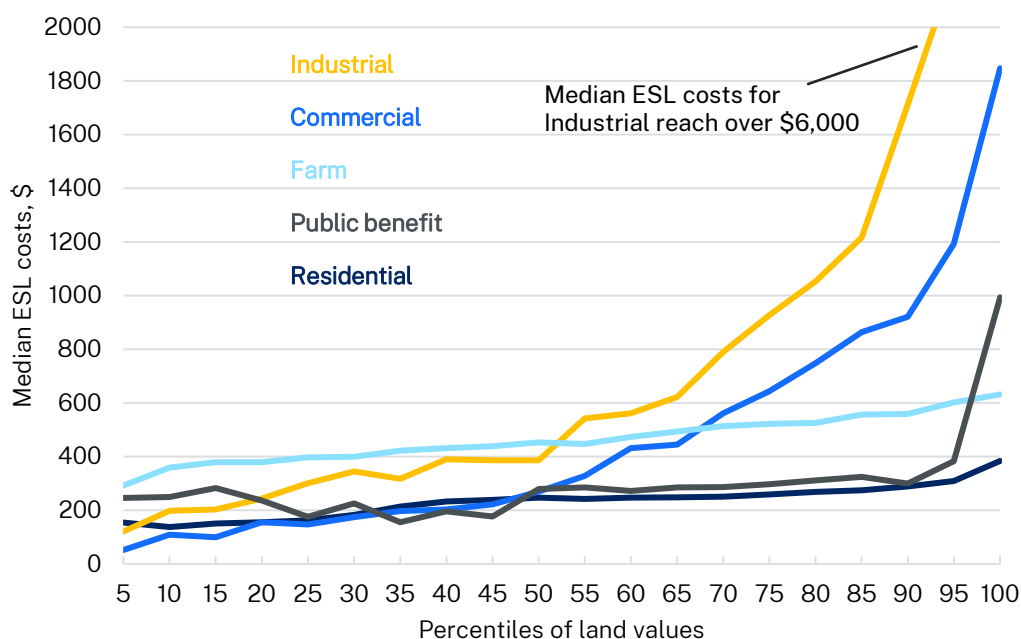
residential sector, and the average cost per property for the commercial sector is around five times higher than the residential average. The relatively higher average ESL cost per industrial property is partly driven by large mining properties, as discussed further in section 5.5.³¹ Differences in median ESL costs between sectors are not as pronounced.

Large differences between the average and median costs within each property sector are the result of a large proportion of property owners paying relatively small ESL costs while a smaller proportion of property owners make relatively larger contributions.

ESL costs also vary depending on property land values

Differences in the distribution of ESL costs across property sectors are also evident when comparing levy costs to land values (see figure 4). Generally, owners of properties with higher land values have higher ESL costs. However, as figure 4 shows, levy costs vary more in the commercial and industrial sectors. In these two sectors, median levy costs among properties in the bottom 5% of land values are similar to the residential sector. However, for the top 5% of commercial and industrial land values, median levy costs are around 5 and 17 times higher, respectively, compared to the residential sector.

Figure 4: Median ESL costs per property by land value and property sector, 2023-24



Source: NSW Treasury calculations based on 2023-24 matched data on insurance, land classification and land values for a sample of NSW properties.

ESL costs for farm and public benefit properties show less variation across the distribution of land values within each sector compared to the commercial and industrial sectors. However, across land values, both the median and average costs in the farm and public benefit sectors tend to be higher compared to residential ESL costs.

³¹ While excluding mining properties reduces the average ESL cost on the remaining industrial sector from \$4,410 to \$3,247, it is still higher compared to the average for the commercial sector. This generally reflects differences in the size and other characteristics of industrial properties compared to commercial properties, as well as the generally higher risk – and therefore insurance costs – for industrial properties.

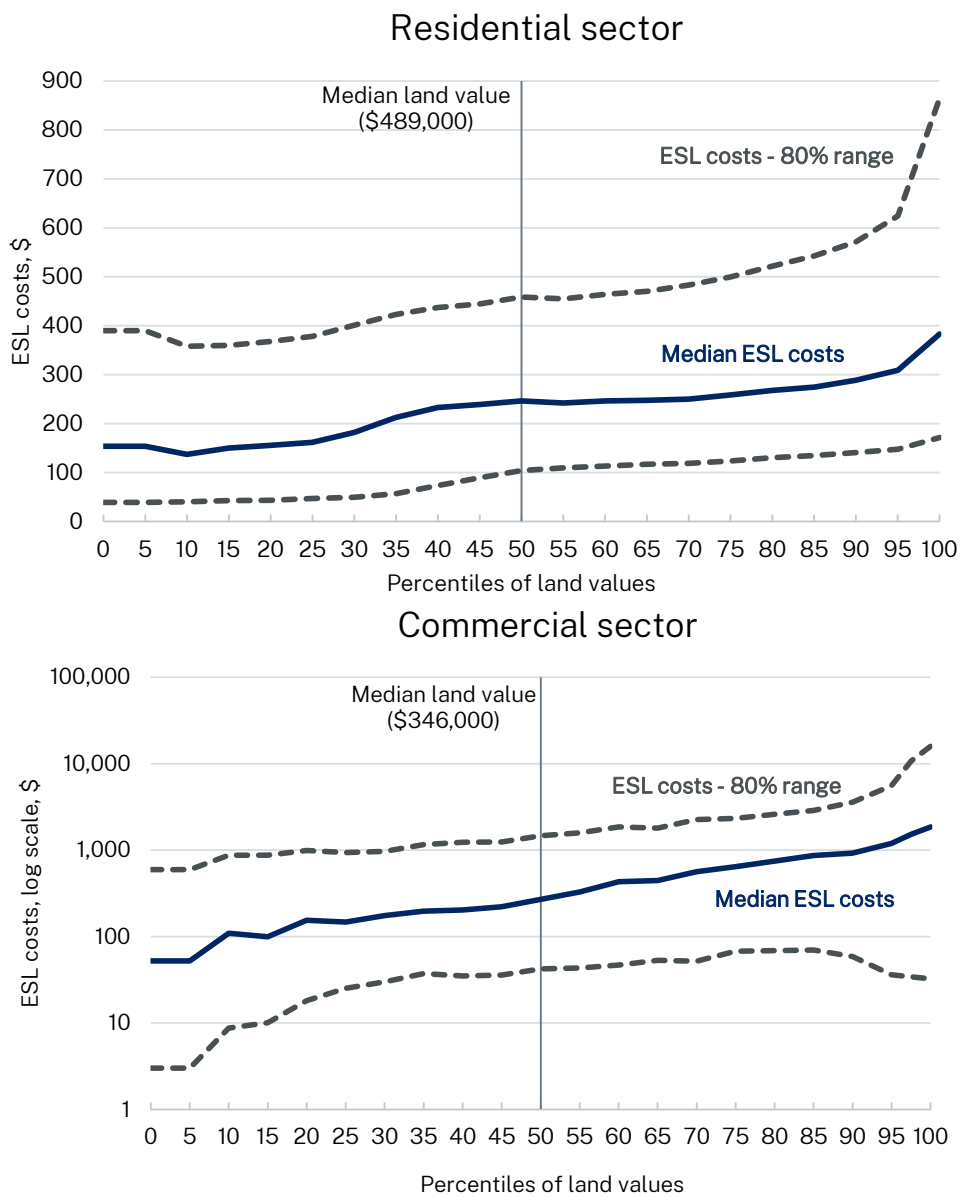
These differences in ESL costs across property sectors and land values provide useful insights that help inform the design of the replacement levy.

Other factors that determine ESL costs per property

There are a broad range of factors contributing to differences in ESL costs for properties with similar land values.

As illustrated in figure 5, in the residential sector, the median ESL cost for properties with land values around \$489,000 (the median land value in the residential property sector) was \$246. However, around 80% of owners of residential properties with similar land values paid between as little as \$104 or as much as \$459 in ESL costs.

Figure 5: ESL costs per property by land values, 2023-24



Source: NSW Treasury calculations based on 2023-24 matched data on insurance, land classification and land values for a sample of NSW properties. ESL costs for the commercial sector are shown in log scale to facilitate the presentation – otherwise, large ESL costs at the top of the land values distribution would render deviation at the bottom of the ESL cost distribution hard to see.

In the case of the commercial sector, the variation in ESL costs is far greater for properties with similar land values. For example, while the median ESL cost for commercial properties with land values around \$346,000 (the median land value in the commercial property sector) was \$270, 80% of commercial property owners with similar land values paid as little as \$42 or as much as \$1,463 in ESL costs. More strikingly, among the top 5% of commercial properties by land values, the median ESL cost is \$1,848 with 80% of properties paying between \$32 and \$15,887.

This is because the ESL is an insurance-based levy. As a result, ESL costs will vary depending on factors including the replacement value of the building structure and contents, the level of inherent risk the property is subject to (for example, fire and flood), the use of the property, and the level of insurance policyholders choose to take.

The economic dividend of the reform depends on ensuring that the replacement levy does not adversely affect the level of insurance property owners choose to take. A levy under the design framework with increasing fixed charges on land values is expected to unlock significant economic benefits and better align individual contributions to the funding of emergency services agencies with property owners' capacity to pay.

Balancing equity and simplicity

A replacement levy with increasing fixed charges on land values will reduce the variation in contributions for owners of properties with similar land values. This is true for any model based on fixed charges and will mean that some property owners with properties of similar land values, but differing locations or property types, may pay more or pay less under a replacement levy compared to what they do under the ESL. Section 6.3 discusses this in detail.

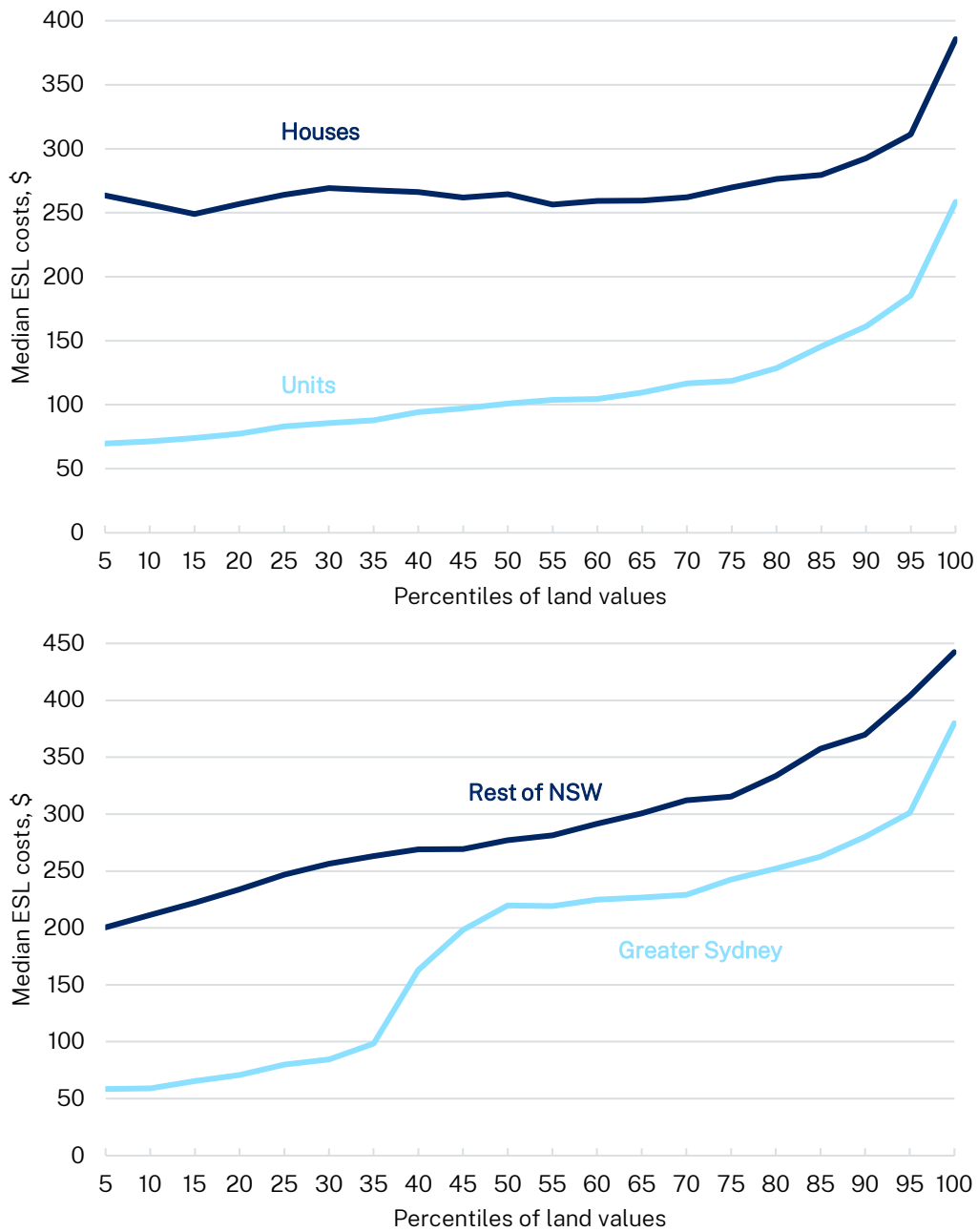
While these changes will impact property owners, they are largely unavoidable under a system that seeks to balance equity and simplicity and delivers a significant efficiency improvement.

The replacement levy options in this paper have been designed to moderate the impact of the transition away from the ESL, while ensuring all property owners who benefit from emergency services make a fair minimum contribution and that contributions align with their capacity to pay.

There are practical options to vary charges for owners of properties with similar land values to either better align their contributions with their capacity to pay or better reflect the benefits received from the operation of the emergency services agencies. For example, this could be achieved by applying discounts or surcharges based on property location or property type. While these options would look to improve equitable outcomes, they may be more complex for levy payers and represent larger changes in levy burdens compared to the current ESL system.

To illustrate this point, figure 6 shows how ESL costs among residential property owners differ between houses and units, and between properties located in and outside Greater Sydney.

Figure 6: ESL costs by land value and property type or location for residential sector, 2023-24



Source: NSW Treasury calculations based on 2023-24 matched data on insurance, land classification and land values for a sample of NSW properties.

The average ESL costs for units in 2023-24 was \$116, lower than the average levy costs of \$328 for houses. As ESL costs are typically set as a proportion of base premiums, differences in ESL costs likely reflect differences in building standards, premise management and maintenance between apartment blocks and houses, the sharing of apartment block insurance costs across individual unit owners, as well as the likely lower inherent risk associated with units compared with houses.

A levy model with increasing fixed charges based on land values would charge owners of units lower levy amounts on average compared to owners of houses. This is because units tend to have lower land values than houses in similar locations, with the value of land typically representing a lower proportion of the total property value. A more equitable outcome may be achieved through a levy surcharge on units designed to have owners of houses and units in similar locations paying

a more even share of the replacement levy. While potentially more equitable, this would likely increase the changes in levy burdens relative to the current system.

Looking at differences in ESL costs by location, figure 6 also shows that residential properties outside Greater Sydney tend to have higher ESL costs compared to properties with similar land values located in Greater Sydney. This is partly because there are relatively less units located outside Greater Sydney and because several regions outside Greater Sydney are exposed to significantly higher risks of natural disasters, relative to the average risk exposure of property located within Greater Sydney.

A discount for properties located in non-metropolitan areas is provided for emergency service levies in Queensland, Western Australia and South Australia, generally reflecting lower levels of emergency service provision. Such a discount may produce a more equitable outcome.

However, under a levy model with increasing fixed charges based on land values, property owners outside Greater Sydney would already see, on average, higher savings under the reform compared to property owners within Greater Sydney. A regional discount would further increase the average savings for properties owners outside Greater Sydney and, as a result, would require property owners in Greater Sydney to contribute a larger share of the replacement levy. Similarly to a surcharge on units, while potentially more equitable, regional discounts would likely increase the changes in levy burdens relative to the current ESL system.

Different levy model options, including options to apply different levies based on property location and property type, are presented and discussed in detail in chapter 5.

4 Levy design parameters

Levy design parameters are part of the high-level levy design framework and help determine the overall contribution of each property sector to the funding of emergency services. Consistent with the Government's concern about capacity to pay and the impact of adjusting to the new system, levy design parameters include levy concessions and transition arrangements.

Other parameters include the revenue target, property sectors and sectoral contributions. These parameters shape the levy model options presented in chapter 5. All levy model options are calibrated to raise the same revenue from each property sector, but they differ in that they charge different levy amounts across properties within each sector.

4.1 Levy concessions

One of the key objectives of the reform is to protect pensioners and vulnerable members of the community from an unaffordable impost. To reduce the impact of the replacement levy on pensioners, a concession is assumed under the design framework to be provided for property that they own and occupy as their principal place of residence. Other states and territories with a property-based levy funding emergency services also provide concessions for certain groups, such as pensioners (see appendix A).

As the reform progresses, the Government will consider whether other protections are appropriate, such as a hardship scheme, or transitional arrangements to moderate the impact of changes in levy burdens.

A hardship scheme could be included for people who cannot make levy payments after meeting basic living expenses. This type of hardship scheme could include both owners of residential property and owners of non-residential property used in connection with a small business.

In addition, temporary arrangements to assist those with significant increases in levy burden could also be included. A transitional approach of gradually reducing the ESL over time and gradually increasing the replacement levy for all property owners (as discussed in section 4.2) is one option.

Owners of vacant land are also assumed under the design framework to receive a discount, reflecting the fewer benefits vacant land receives from the operation of the emergency services agencies. Under a levy of fixed charges based on land values without a concession, owners of vacant land would pay the same levy as owners of similarly zoned and sized non-vacant property with the same land value. Reflecting this beneficiary element, most other states have a reduced levy or apply an effective lower charge to vacant land compared to non-vacant property (see appendix A).³²

³² As indicated in the previous chapter, vacant land is defined as land where there are no buildings or structures.

Pensioner discount

A simple approach would be a fixed discount for all pensioner-owned principal places of residence. A \$60 fixed discount broadly aligns with levy concessions provided to pensioners by other Australian states and territories.

Based on 2023-24 data, the total estimated support for pensioner-owned property with a \$60 discount would have been \$24.8 million. The cost of pensioner discounts is assumed under the design framework to be offset by increasing the non-concessional residential levy amounts.

Alternative approaches could provide the same aggregate support with different distributional outcomes. One alternative approach could be a percentage discount applied to all pensioner-owned principal places of residence. This would provide pensioners with more valuable properties, who are subject to a higher replacement levy, a larger discount in dollar value.

Another approach is to apply a higher percentage discount to pensioner-owned principal places of residence for the lowest two levy amount tiers only. This approach offers a higher discount to pensioner owner-occupied property with the lowest land values. The trade-off is providing no discount to pensioner owner-occupied properties with the highest land values.

Another option is a progressive schedule of fixed discounts. Under this approach, all pensioners would still receive a discount, but greater discounts are provided for lower-value properties than higher-value properties.

For modelling purposes, the levy model options in chapter 5 assume a \$60 pensioner discount.

Vacant land discount

A simple approach would be to apply a percentage discount to the levy amount payable on vacant land. A 40% discount broadly aligns with other Australian jurisdictions. In Queensland, lower fixed charges apply to vacant land. In South Australia and Victoria, the rate of the levy is based on capital-improved value meaning vacant land is charged less than a property with the same land value and a building or structure that improves the property's value.

Based on 2023-24 data, the total estimated support for owners of vacant land with a 40% discount to the replacement levy would have been \$17.4 million.³³ The cost of vacant land discounts is assumed under the design framework to be offset through higher non-concessional levy amounts within each property sector.

Alternative approaches could provide the same level of support in aggregate to owners of vacant land with different distributional outcomes.

For instance, a higher percentage discount could be applied on vacant land, with an upper cap on the dollar value of the discount. This approach would provide a more generous discount for most vacant land properties, except for those with the highest land values.

³³ This estimate is based on levy model option A in chapter 5, with 87,003 owners of vacant land receiving a 40% discount. Owners of residential vacant land would have received an aggregate discount of \$7.5 million, owners of commercial vacant land would have received \$2.7 million, and owners of industrial vacant land would have received \$7.1 million.

Another approach is a progressive schedule of fixed discounts. This could provide more generous discounts to properties with lower land values.

For modelling purposes, the levy model options in chapter 5 assume a 40% discount for owners of vacant land.

4.2 Transition arrangements

A complex aspect of the reform is the way the transition from the ESL to the replacement levy is reflected in property insurance premiums. As outlined in the 2024 consultation paper, it is important that the reduction in insurance premiums does not happen in a way that encourages policyholders to delay renewals of their insurance and risk being uninsured until the ESL is removed.

Each insurer determines how the ESL is attributed across their policyholders. This means the removal of the ESL requires lead time for the insurance industry so that insurance premiums can adjust with minimal disruption to the insurance market. Insurance premiums, and therefore the attributed ESL, are paid continuously throughout the year in line with the timing of new policies and renewals. In contrast, the replacement levy would apply to all property owners annually at the same time. The reduction in insurance premiums needs to happen in a way that considers the equitable treatment of individual policyholders, particularly those that could face paying the ESL on their insurance policy and then a replacement levy shortly thereafter.

The replacement levy could be introduced overnight on a specific date, or under a phased transition over a specified number of years.

An overnight introduction would have the ESL being replaced in full in the first year of the reform. This approach would deliver the full benefits of the reform as quickly as possible by lowering insurance premiums through the complete removal of the ESL. This approach would result in a substantial insurance price adjustment with greater potential to cause disruption to the insurance market. An overnight introduction would provide limited time for property owners to adjust to the impact of the reform, which could be material for those with larger changes to the levy burden or those who are currently uninsured.

A phased transition over a small number of years would see the ESL collected gradually reduce each year and the replacement levy increase in parallel over the transition period. This approach would smooth the impact of the reform, particularly for those with material changes in levy burden or those who are uninsured. It would also enable the Government to refine the replacement levy during the transition, if necessary, for the new model to operate as intended. However, a phased transition would reduce the immediate benefits of the reform with a longer period for insurance premiums to decline and reflect the full savings from the removal of the ESL. Insurers would continue to incur costs of administering the ESL until the transition is completed.

A protracted transition of more than a few years would further reduce disruption in the insurance market but significantly delay the benefits of the reform, dilute the perceived savings on insurance premiums and extend the compliance burden on insurers over a longer period.

It is noted that the transition arrangements for the reform can be determined independently from other levy design parameters and the choice of levy model options.

The Government will continue to work with the insurance industry throughout the implementation of the reform and IPART, as the Insurance Monitor, will oversee the transition from the ESL to the replacement levy (as outlined in section 2.1).

4.3 Other design parameters

The levy model options in chapter 5 are contingent on assumptions for the revenue target, property sectors and sectoral contributions.

Revenue target

The revenue target is the amount to be raised from the replacement levy to contribute to funding the three emergency services agencies.

One of the design principles is cost recovery. This means the revenue target will be set at a level sufficient to cover the revenue required for the funding sources that are replaced.

Currently, emergency services funding comes from insurance companies via the ESL (73.7%), local councils (11.7%) and the State Government (14.6%).

For modelling purposes, the levy model options in chapter 5 assume a revenue target that replaces the revenue lost from the removal of the ESL. The revenue lost from the removal of the ESL includes the revenue currently raised directly from the ESL, as well as the component of stamp duty on insurance that is charged on top of the ESL. For 2023-24, this amounts to \$1,526 million or 81.2% of the funds raised for the emergency service agencies in that year.³⁴

If other funding sources are replaced, or levy administration costs are funded, the parameters, modelling and options presented in this paper would differ.

The revenue target will be calculated before the beginning of each financial year based on the estimated funding requirement of the emergency services agencies. The revenue to be raised from each property sector (see sectoral contributions in section 4.3) will then be adjusted to achieve the revenue target. As a result, while the levy model options in chapter 5 would apply to any financial year, specific levy amounts would be adjusted each year to align with the revenue target. Land value thresholds would also be adjusted periodically to reflect changes in land values.

Property sectors

Based on the preliminary land classification carried out by local councils and used for modelling purposes in this paper, land is classified into six property sectors:

- residential land
- commercial land
- industrial land

³⁴ NSW Treasury calculations based on data from NSW Budget Papers. Shares differ from the headline percentages due to the two-year adjustment in the calculation of the contribution target for the ESL.

- farmland
- public benefit land
- government land.

Separating mining properties from the industrial sector warrants further consideration. Distinguishing land use by sectors allows for a tailored but more complex levy design, with different levy amounts and thresholds applying to each property sector.

A lower replacement levy on residential property compared to other properties

As discussed in chapter 3, the average ESL cost per residential property was significantly lower compared to the other property sectors in 2023-24. The ESL costs increase base premiums for residential property by around 18% compared to about 34% for non-residential property. These markups reflect insurers' discretion in how ESL is attributed to policyholders, including assessment of the capacity of different customer types to absorb different insurance costs, including income tax deductibility of premiums.

This variation in the allocation of ESL by insurers indicates that applying a uniform levy for all property sectors would likely increase the aggregate burden on the residential sector. Given this, separating properties into residential and non-residential sectors and applying a lower levy rate to the former is necessary to moderate the changes in levy burdens.

Different replacement levies between non-residential property sectors

As noted in chapter 3, land values and ESL costs also vary between non-residential property sectors. These differences justify developing different levy amounts for each individual non-residential property sector to moderate sharp changes in levy burdens.

Farms should be levied at a lower rate than commercial and industrial properties. This is partly because land values typically represent a high proportion of the total property value of farms. A uniform levy on all non-residential property would result in a high burden on farms relative to the service benefits they receive. Differentiating farms from other non-residential property also reflects how other jurisdictions treat farms for the purpose of funding emergency services.

Public benefit properties are mainly used for not-for-profit activity. Levying these properties at a lower rate reflects the benefits they provide to the community and their likely lower capacity to pay. It is broadly consistent with the concessional treatment offered under other taxes such as land tax.

Other non-residential properties, used for commercial and industrial purposes, should be subject to different levies to account for the significant difference in current average ESL costs (see chapter 3).

Sectoral contributions

Sectoral contributions determine how the revenue target is distributed between property sectors. There are various methods for setting sectoral contributions based on measures related to either each sector's current revenue contribution or a measure of their capacity to pay.

Maintaining the revenue contribution from the residential property sector

An assumption under the design framework is the levy burden placed on homeowners remains equal to what they currently collectively contribute.

Assuming a revenue target that replaces the ESL plus the associated stamp duty charged on top of the ESL, the residential sectoral contribution will align with the current contribution from insured residential property. Based on 2023-24 data, this would have been 49.3% of the total revenue target, as reported in table 6.³⁵

Emergency services funding contributions that households currently make through the ESL on motor vehicle insurance is assumed under the design framework to be recovered through the non-residential property sectors.

Table 6: Sectoral contributions based on 2023-24 data

	Current revenue shares	Modelled sectoral contributions	
		Based on estimated average ESL costs per non-residential property sector	Based on estimated average ESL costs with safeguards for farm and public benefit properties
Property sector			
Residential	49.3%	49.3%	49.3%
Non-residential	44.5%	50.7%	50.7%
Commercial	See note	18.1%	19.1%
Industrial		22.9%	24.2%
Farm		7.3%	5.5%
Public benefit		2.4%	1.9%
Other sources			
Motor vehicles	6.1%	-	-

Source: NSW Treasury calculations based on aggregated data by insurance class for insurance premiums and ESL-attributed charges collected by Revenue NSW; 2023-24 matched data on insurance and land classification for a sample of NSW properties.

Note: Individual revenue shares for non-residential sectors are not known. Insurers do not report ESL collections by property use other than by distinguishing between residential and non-residential property insurance. An estimation of these shares is possible based on the matched sample of unit record property data on ESL costs and land classification. This likely underestimates actual revenue shares, however, as the matched sample does not fully capture total ESL costs for the most complex insurance policies, particularly in the commercial and industrial sectors, as discussed in section 3.1. Based on estimated average ESL costs per sector, and assuming all non-residential properties in NSW are insured, the revenue shares for the commercial, industrial, farm and public benefit sectors in 2023-24 would be 12.6%, 16.0%, 5.1% and 1.7%, respectively. Shares in the third column are higher as these have been scaled up to apportion the 50.7% non-residential sector contribution.

³⁵ In 2023-24, residential property and non-residential property were charged 49.2% and 44.4% of ESL revenue, respectively. Including insurance duty charged on top of the ESL increases these shares slightly. This is because residential and non-residential property insurance attracts insurance duty at a higher rate compared to other classes of insurance (specifically, residential and non-residential property insurance is subject to duty at 9%, compared to 5% for motor vehicle insurance and generally no duty for crop and livestock insurance).

Determining non-residential contributions

Property classified as government-owned property is assumed under the design framework to be exempt from the replacement levy. In addition, the replacement levy is assumed under the design framework to not collect revenue from motor vehicle owners as this falls outside the revenue base of land values. The funding contributions currently raised from insurance of government-owned property and motor vehicles is assumed under the design framework to be recovered through the levy on non-residential property sectors.

Alternative approaches in determining sectoral contributions for each non-residential property sector includes proportioning contributions based on each sector's capacity to pay, such as relative shares of land values or gross operating surplus, or estimates of their current revenue contributions.³⁶

Each of these approaches would generate different outcomes to raise the 50.7% contribution from the total non-residential sector. However, proportioning based on each sector's current revenue contribution would best moderate the impact of the transition from the ESL to the replacement levy. Table 6 shows the contribution for each non-residential sector proportionally based on estimates of current revenue contributions.³⁷

This approach would broadly align the relative differences in the average replacement levy between non-residential property sectors with the relative differences in current average ESL costs per sector. For example, the average replacement levy in the commercial sector would be about twice that of the farm sector.³⁸ This approach would also mean that all non-residential sectors would contribute, proportionally, to recovering the funding contributions currently raised from the ESL on government-owned property and motor vehicles.

In developing the levy model options in chapter 5, the assumed non-residential sectoral contributions were further adjusted to include safeguards for farms and public benefit properties. As illustrated in the last column of table 6, the farm and public benefit sectoral contributions are set such that the average replacement levy payable across properties in each sector is equal to the estimated average ESL cost currently paid by insured properties in the respective sector.

This ensures that the burden on insured properties in the farm and public benefit sectors does not change, on average, compared to the current system. This approach reflects the considerations outlined in section 4.3 for levying farms and public benefit properties at lower rates than commercial and industrial properties. But safeguards to the farm and public benefit sectors also mean that only owners of commercial and industrial properties will contribute towards replacing ESL revenue from government-owned property insurance and motor vehicle insurance.

³⁶ Gross operating surplus refers to the income from a firm's production activities, defined as gross value added minus compensation of employees and taxes payable plus subsidies on production and imports.

³⁷ Current revenue contributions for each individual non-residential sector, as well as the number of uninsured properties in each sector, are not known and had to be estimated. Estimates for the current revenue contribution from each non-residential sector used the estimated average ESL costs per property sector reported in table 5 and assumed a constant non-insurance rate across all non-residential sectors.

³⁸ Based on table 5, the average ESL cost per property in the commercial sector, at \$1,500, is about twice the average ESL cost per property in the farm sector, at \$772.

5 Levy model options

This chapter outlines five levy model options based on the design framework discussed in chapter 2. These are:

- **Option A:** Four tiers of fixed charges
- **Option B:** Four tiers of fixed charges with greater escalation
- **Option C:** Six tiers of fixed charges
- **Option D:** Fixed charges with regional discounts
- **Option E:** Fixed charges with surcharges by property type.

These levy model options are instructive examples under the design framework. All levy model options have increasing fixed charges based on ranges of land values and align with the reform objectives and levy design principles.

Table 8 at the end of this chapter sets out the levy amounts and land value thresholds for each property sector for the five levy model options.

Owners of insured residential properties would have saved an average of \$65 per year based on 2023-24 data

The average replacement levy is compared with the average ESL cost for each property sector in table 7. For the residential sector the average replacement levy is lower. For owners of property in the commercial and industrial sectors, the average replacement levy is higher compared to the average ESL cost. The levy burden on owners of insured property in the farm and public benefit sectors is the same, on average.

Table 7: Assumed sectoral targets and average levy amounts, 2023-24

Property sector	Sectoral contribution	Sectoral target (\$ million)	Property count	Average replacement levy amount	Average ESL cost per insured property
Residential	49.3%	\$753	3,081,885	\$244	\$283
Commercial	19.1%	\$291	140,445	\$2,073	\$1,500
Industrial	24.2%	\$369	60,559	\$6,095	\$4,410
Farm	5.5%	\$85	109,638	\$772	\$772
Public benefit	1.9%	\$29	21,501	\$1,327	\$1,327

Source: NSW Treasury calculations. ESL costs include the ESL charged on insurance and the associated GST and stamp duty payable on top of the ESL. Average ESL cost estimates in this table exclude ESL costs associated with motor vehicle insurance. Data on ESL costs on motor vehicle insurance, per insurance policy, was not collected from insurers. Based on NSW Treasury calculations, discussed in footnote 39, it is estimated that, on average, ESL costs on motor vehicles represent an additional \$26 burden per non-vacant residential property and about \$98 per non-vacant non-residential property.

Whether any property owner will pay less or more under the replacement levy will depend on:

- how much ESL is paid under the current system, and
- the levy model option that applies.

Based on 2023-24 data, insured residential property owners would have saved \$65 per year on average relative to the burden imposed by the ESL and the associated GST and stamp duty. This saving would have been the same under all five levy model options.

Table 7 shows that insured residential property owners in 2023-24 would have paid an average levy of \$244 per property, instead of \$283 in ESL costs associated with residential property. When combined with average ESL costs on motor vehicles for the residential sector, insured residential property owners would have paid an average of \$309 in ESL costs. This \$65 saving includes:

- A. \$26 on average from the exclusion of ESL costs on motor vehicles, which is recovered from the non-residential sector³⁹
- B. \$24 on average from savings on the GST applied on top of the ESL on residential property insurance premiums
- C. \$16 on average from the replacement levy being spread across all properties, not just insured properties, thereby lowering the average contribution required per insured property.

All levy model options have the same average revenue burden on each property sector

The revenue raised from each property sector is determined by the revenue target and sectoral contributions as discussed in chapter 4. This means that each levy model option is designed to raise the same amount of revenue from each property sector.

Levy model options align differently to the principles of equity and simplicity

All levy model options under the design framework are expected to support a significant efficiency improvement and see cost recovery and sustainability in funding NSW's emergency services agencies.

Compared to the ESL, all levy model options are more equitable, more transparent and simpler to understand and administer. Each option aligns differently to these principles by distributing costs differently, which results in trade-offs between options.

All levy model options are more equitable insofar as all property owners make at least a minimum contribution towards the funding of the state's emergency services agencies, contributions increase as a property owners' capacity to pay increases, and the impact of changes in levy burdens from the current system are moderated. All levy model options are also simpler, as they are based on a small set of fixed charges by land value ranges, so property owners can readily understand how the replacement levy is determined.

The options differ in terms of how the levy burden is distributed across properties within each property sector. While all models charge different levy amounts on each property based on land values, some options also apply discounts or surcharges based on property location or type.

³⁹ It is difficult to accurately quantify how much individual households contribute on average in ESL on motor vehicle insurance. Based on aggregate insurance premiums data from the Australian Prudential Regulation Authority, data on motor vehicle type and use from the Australian Bureau of Statistics, and data on NSW motor vehicle registrations, NSW Treasury estimates that around 75% of ESL revenue associated with motor vehicle insurance is collected from motor vehicles used for domestic or private purposes and 25% from motor vehicles for business purposes.

As discussed further in this chapter, this means that some levy payers will pay more and some will pay less compared to the ESL, with the difference relative to the ESL varying across options. For example, an option that sees more people paying less will necessarily mean an increase in costs incurred by those paying more.

The following sections present levy amounts and land value thresholds for each levy model option to achieve the revenue target and sectoral contributions based on 2023-24 data.

5.1 Option A: Four tiers of fixed charges

This option balances the principles of equity and simplicity by moderately increasing levies for each of the four tiers based on land values for each property sector.

As illustrated in chapter 3, given the differences in the level and distribution of ESL costs and land values across different property sectors, it is appropriate to set land value thresholds and levy amounts specifically for each sector.

Setting land value thresholds for each property sector

For the residential sector, the four levy amount tiers based on 2023-24 data are as follows:

- The first tier covers the bottom 30% of properties with land values up to the first threshold of \$302,100.
- The second tier covers the next 40% of properties, with land values above \$302,100 and up to the second threshold of \$728,000.
- The third tier covers the next 20% of properties, with land values above \$728,000 and up to the third threshold of \$1,410,000.
- The fourth tier covers the top 10% of properties with land values above \$1,410,000.

The land value thresholds would need to be recalculated periodically to reflect changes in land values over time and maintain the same share of properties in each tier.

For the commercial, industrial, farmland and public benefit sectors, the tiering system divides each sectoral property stock into four groups representing the first 50%, and successive 20%, 20% and 10% of properties by land values. This tiered approach differs from the residential sector to reflect the specific distribution of land values, and ESL costs, identified for each property sector. Because the distribution of land values differs for each non-residential property sector, the land value thresholds are different for each.

For example, based on 2023-24 data, the first threshold would be \$346,000 for the commercial sector and \$486,000 for the industrial sector. These first levy tiers would cover the bottom 50% of properties in that sector.

Property owners should make fair contributions in line with their capacity to pay

As discussed in section 2.3, the following general considerations under the equity principle are applied for all levy model options:

- **All property owners make a minimum contribution**, while recognising that owners of properties with the lowest land values are more likely to have a lower capacity to contribute.

Given this, for the lower tiers, levy amounts will broadly align with median ESL costs. For example, in 2023-24, more than half of owners of properties in the bottom 30% of residential land values contributed more than \$180 in ESL costs. Setting the levy amount at \$175 for this group would mean a large portion of property owners would have paid less under the replacement levy.

- **Levy amounts increase for properties in higher land-value ranges**, broadly reflecting property owners' capacity to pay and supporting fair contributions.
- **Moderate impacts on levy burdens per property**, ensuring each property sector's contribution is met while moderating changes relative to the ESL, including for owners of the highest-valued properties.

For example, the amounts for the top two tiers for the commercial sector would have been \$2,500 and \$12,972 in 2023-24. While higher than the estimated median ESL cost for each group, these amounts would have ensured that the sectoral contribution of the commercial sector (of about \$291 million in 2023-24) would have been met.

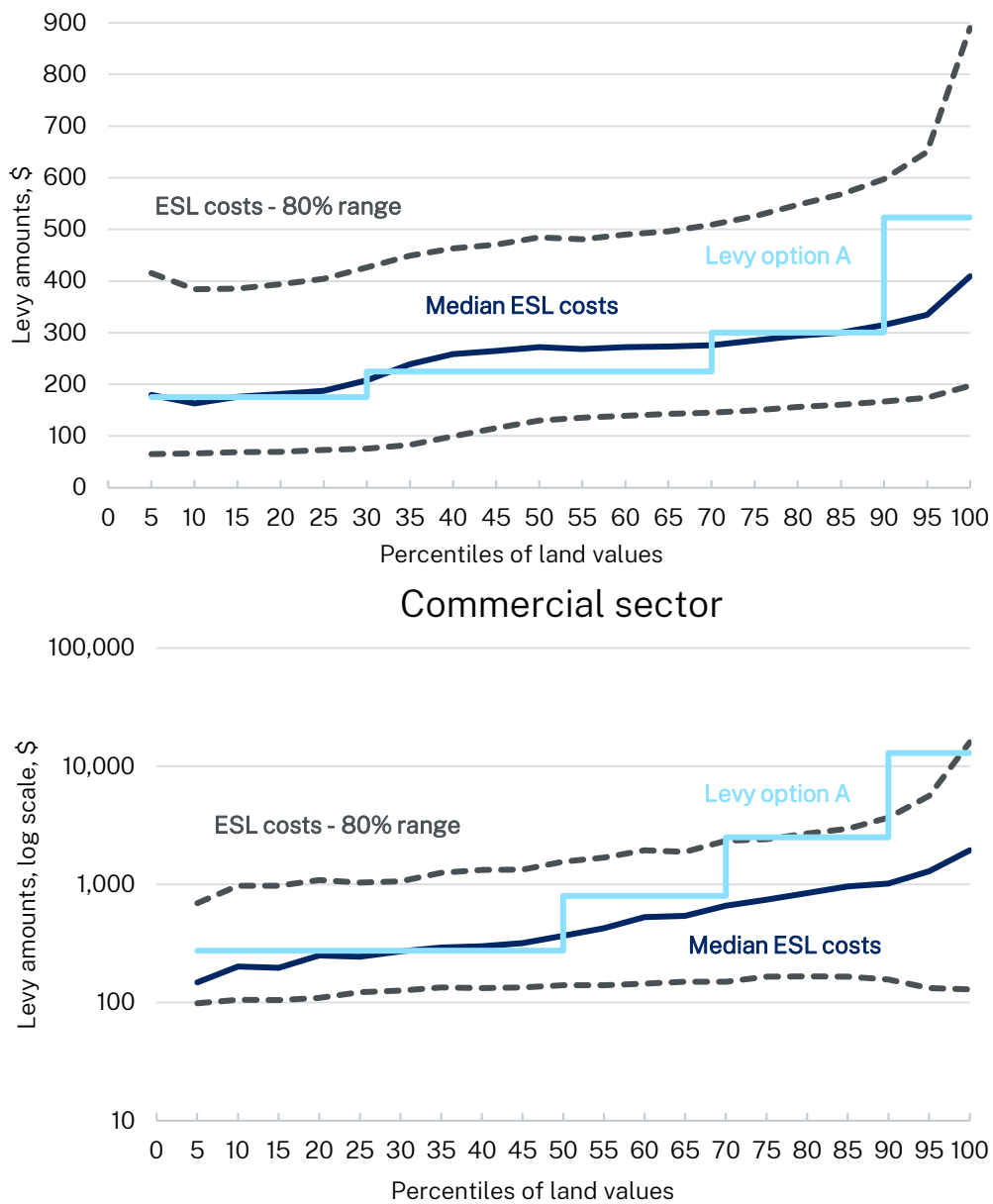
Figure 7 illustrates how this approach has been applied to the residential and commercial sectors.

Across all property sectors, owners of properties with higher land values will be more likely to face an increase in levy burdens relative to the ESL. For example, the median ESL cost for owners of commercial properties with the top 5% of land values was \$1,946 in 2023-24, compared to a replacement levy under option A of \$12,972.

While changes can be significant for some in this cohort of property owners, any increase in levy burdens would be capped. Under an alternate ad valorem levy, the maximum change in levy burden would be more uncertain and likely higher for some, if not most, property owners with higher land values.

Moderating the changes for owners of properties with higher land values would have to be offset by increasing the levy amounts for properties with lower land values. This could affect property owners with a lower capacity to pay and for whom larger changes in levy burdens may be more difficult to meet. It would also benefit some owners of higher-value properties who currently pay a high ESL.

Figure 7: Option A four-tier levy amounts for the residential and commercial sectors



Source: NSW Treasury calculations based on 2023-24 matched data on ESL costs per property.

Owners of properties with similar land values may pay different levy amounts

Owners of properties on either side of a land value threshold will pay different amounts. For example, and as illustrated in figure 7, an owner of a residential property with a land value of \$1,405,000 would have paid \$300, whereas an owner of property with a land value of \$1,415,000 would have paid \$523.

Any tiered system of fixed charges will result in ‘jumps’ close to the thresholds. In developing the five levy model options, consideration was given to minimising the number and size of jumps between tiers while ensuring that levy amounts broadly reflect differences in capacity to pay and moderate the impact of change from the current system.

5.2 Option B: Four tiers of fixed charges with greater escalation

Option B retains option A’s four tiers, except for the public benefit sector. This maintains the simplicity of the model.

This option differs from option A through a wider spread of levy amounts across the four tiers. Option B provides a different balance between the equity considerations of moderating the change in burden for property owners with the lowest capacity to pay and moderating the largest changes in burdens which are concentrated among owners of higher value properties.

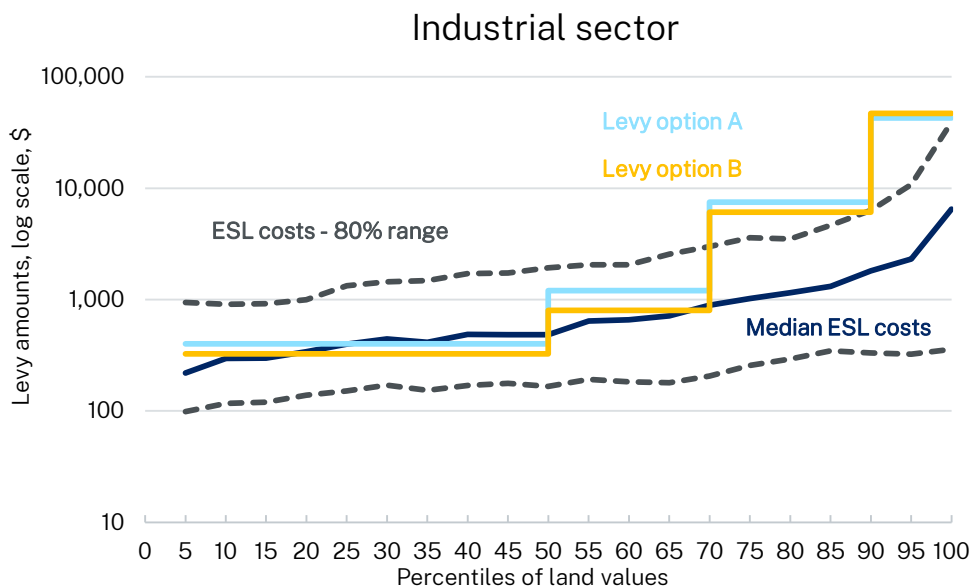
This option lowers the charges on owners of properties with lower land values by levying higher charges on owners of properties with the highest land values. For example, owners of the top 10% of residential properties by land values are charged an additional \$50 above option A. This increase funds a \$17 reduction in the levy for owners of properties in the bottom 30% of land values.

Similarly for the industrial sector, an increase of \$4,000 for those with properties in the top 10% of land values compared to option A provides for owners of properties in all other tiers to pay less. Owners of properties with the lowest 50% of land values pay \$75 less, owners in the next 20% of land values pay \$400 less, and the next 20% pay \$1,398 less compared to option A (see figure 8).

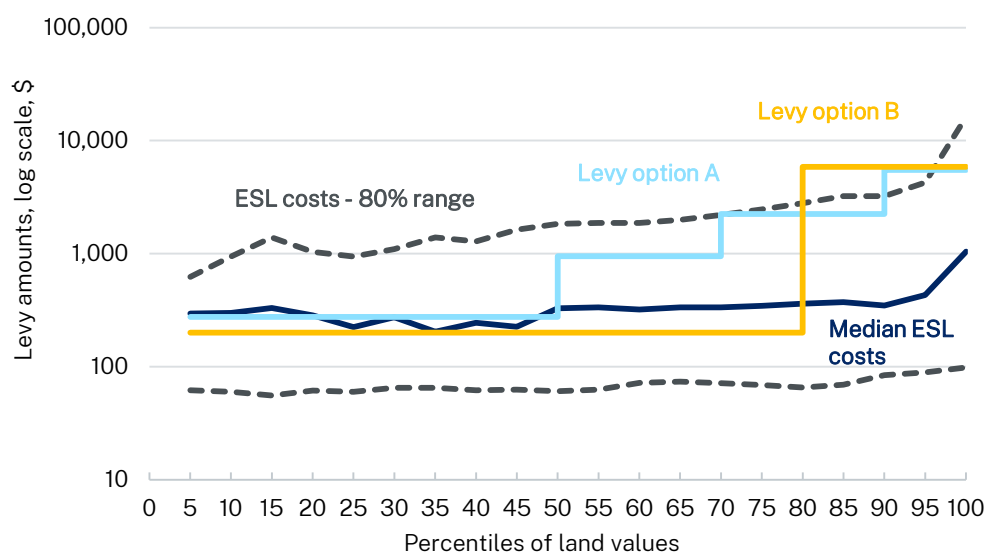
The four levy amount tiers in option A are reduced to two for the public benefit sector in option B. The first tier up to \$1,580,000 covers 80% of properties, with the other 20% of land values above \$1,580,000. This reflects the flatter distribution of ESL costs across most owners of public benefit properties, irrespective of land values. Based on the 2023-24 matched sample, the ESL costs for public benefit properties only increase noticeably among those with the highest land values.

Differentiating the levy model structure for the public benefit sector achieves more equitable outcomes by aligning the replacement levy closer to the median ESL costs for most owners of public benefit properties with lower land values.

Figure 8: Option B setting different levy amounts for the industrial and public benefit sectors



Public benefit sector



Source: NSW Treasury calculations based on 2023-24 matched data on ESL costs per property.

While owners of properties with the highest land values would already have seen the largest increases in levy burdens relative to ESL costs under option A, this effect is further extended under option B. This is particularly noticeable for the public benefit sector.

One option to alleviate some of the levy burden would be to introduce a higher levy amount only on a smaller portion of owners of properties with the highest land values, as discussed in the next section.

5.3 Option C: Six tiers of fixed charges

This option varies from the first two options with the introduction of two additional levy tiers that reflect the sector-specific distribution of land values. As in option B, only two levy amount tiers apply to the public benefit sector.

Option C provides for a more equitable distribution of levy contribution towards the funding of the state's emergency services agencies, to the extent that land values reflect property owners' capacity to pay. Additional land value thresholds improve equity but add a little complexity to the levy model.

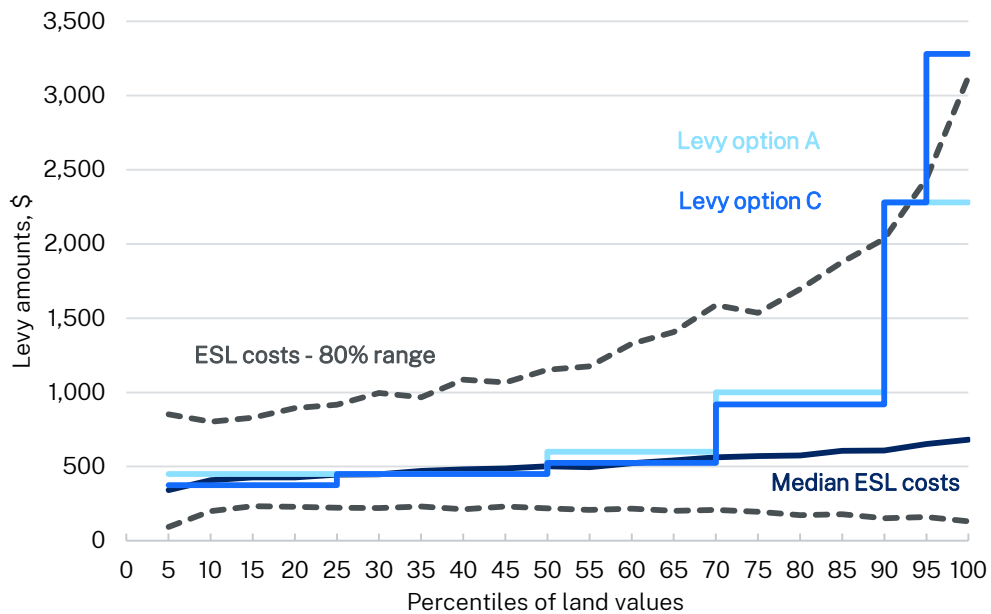
This option lowers the levy amounts for owners of properties with lower land values and increases the levy amount for owners of the highest value properties:

- An additional lower tier for properties with the lowest land values is funded from an additional tier for the top 5% of properties with the highest land values in each property sector.
- The new top tier also funds some reductions in levy amounts for other land value ranges within the same sector to bring them closer to the median ESL costs for each group.

For example, figure 9 compares option C to option A for the farm sector based on 2023-24 data:

- Under option C, a new tier is introduced for the top 5% of properties with land values above \$6,060,000. The new levy amount is \$1,000 higher compared to option A.
- Option C also introduces a new tier for the bottom 25% of properties with land values up to \$486,000. The new levy amount is \$75 lower relative to option A.
- The new, higher top tier also funds a reduction of \$75 and \$82 in the levy amounts for owners of properties with land values in the second and third tiers in option A.

Figure 9: Option C setting six-tier levy amounts for the farm sector



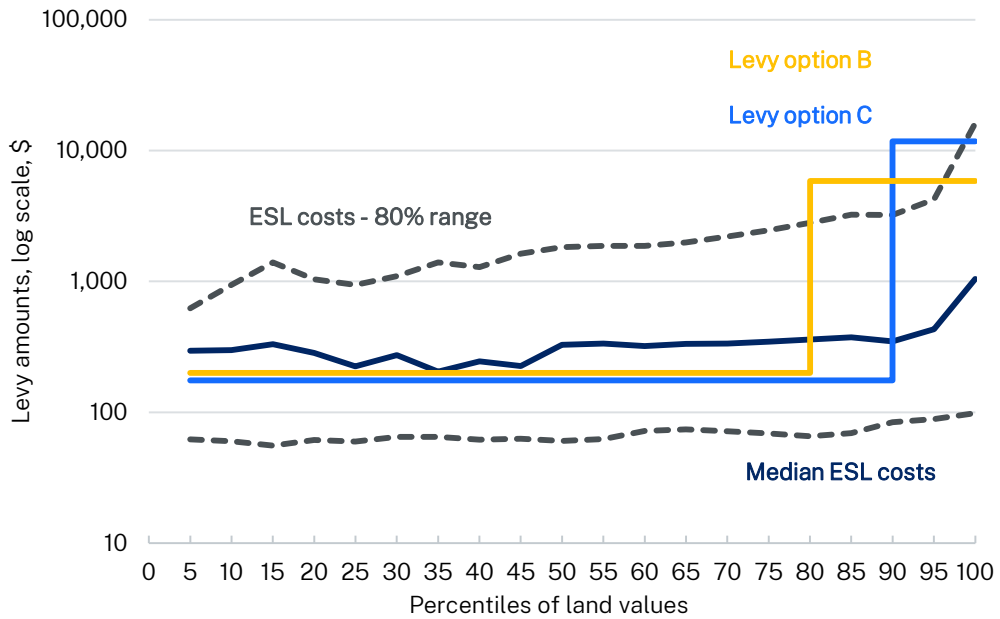
Source: NSW Treasury calculations based on 2023-24 matched data on ESL costs per property.

As discussed further in chapter 6, increases in levy burdens for owners of properties with high land values can be significant. This is particularly evident under models like option C that aim to better align with capacity to pay. Across all property sectors, the primary drivers for this are:

- The reform objective that the revenue raised under a replacement levy matches the funding sources being replaced so that emergency services agencies continue to be funded adequately and sustainably.
- The recognition that owners of properties with the lowest land values are more likely to have a lower capacity to contribute, and so the replacement levy for them will broadly align with current median ESL costs.

The public benefit sector is treated similarly to option B. Option C aims to better align to the median ESL costs for most owners of public benefit properties with lower land values. The land value threshold is increased from \$1,580,000 to \$3,260,000, lowering the bottom levy amount by \$25, and increasing the top levy amount by \$5,874 (see figure 10). Relative to options A and B, there is a lower levy for around 90% of public benefit property owners and a higher levy for the top 10% of owners with the highest land values.

Figure 10: Setting two-tier levy amounts for the public benefit sector



Source: NSW Treasury calculations based on 2023-24 matched data on ESL costs per property.

5.4 Option D: Fixed charges with regional discounts

Option D is similar to option A with moderately increasing levies across four tiers for each property sector, but with regional discounts for properties located outside Greater Sydney.⁴⁰ These discounts are additional to, and applied before, the concessions for pensioners and vacant land.

Option D introduces regional discounts to reflect models used in Queensland, Western Australia and South Australia (see appendix A). These states provide emergency service levy discounts for properties located in non-metropolitan areas to reflect lower levels of emergency service provision. This is an additional equity consideration.

Given properties outside Greater Sydney have lower land values on average, these property owners would pay less on average under all replacement levy options compared to owners of properties in Greater Sydney. Moreover, and as discussed in chapter 3, as owners of property outside Greater Sydney tend to face higher ESL costs, they will tend to see higher savings than owners of properties with similar land values located in Greater Sydney.

Despite paying lower replacement levy amounts on average, some owners of property located outside Greater Sydney may consider they would still contribute disproportionately to the funding of emergency services relative to the benefit they could receive from their availability. Regional discounts attempt to remedy this and better align average replacement levy burdens to average level of emergency service provision.

The regional discounts are broadly aligned to Queensland’s Emergency Management Levy. In Queensland, properties are classified into five district classes based on the availability of fire

⁴⁰ As discussed in options B and C, given the unique distribution of land values among public benefit property, a two-tier structure is applied to the public benefit sector.

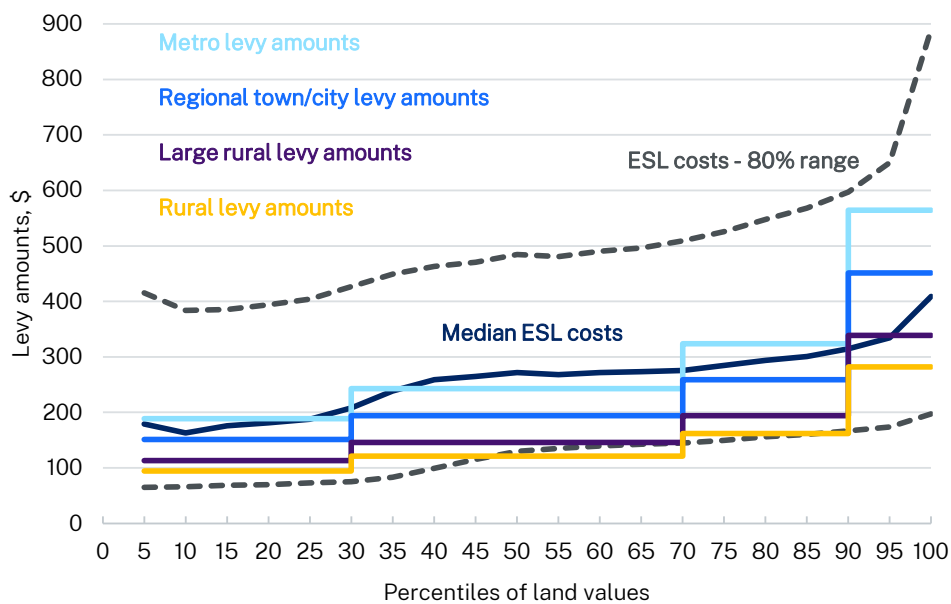
and emergency services. Lower levy amounts are charged for properties in more remote locations with a lower service provision.⁴¹

In designing option D:

- Properties were allocated into four district classes, broadly in line with the Queensland approach: Greater Sydney, regional town/city, large rural, and rural.⁴² This classification was not determined by actual availability of emergency services in NSW as is the case in Queensland.⁴³
- In line with Queensland, a discount of 20% applies to properties in a regional town/city, a 40% discount applies to properties in large rural areas and a 50% discount applies to properties in rural areas.

Based on 2023-24 data, figure 11 illustrates option D for the residential sector. Compared to options A and B, higher levy amounts would have applied to property owners in Greater Sydney (about 62% of all residential property), whereas property owners outside Greater Sydney (about 38% of all residential property) would have paid less.

Figure 11: Option D setting levy amounts with regional discounts for the residential sector



Source: NSW Treasury calculations based on 2023-24 matched data on ESL costs per property.

While a system of regional discounts may better align replacement levy amounts to average level of emergency services provision, alignment to the principle of equity would depend on how regions are classified and the level of discounts that apply to each region. Additional data on emergency service availability by region would be required to classify each region accurately and transparently and to determine the appropriate method for setting discounts. A robust and fair classification process

⁴¹ For residential properties and most non-residential properties, the Queensland levy has only four different levy amounts for district classes, with two district classes having the same levy amount.

⁴² Regional towns and cities include places such as Wollongong, Coffs Harbour, Lismore, Ballina, Lake Macquarie, Wagga Wagga, Orange and Armidale. Large rural areas include places such as Bellingen, Tenterfield, Yass and Murray River. Rural areas include places such as Bourke, Brewarrina and Weddin.

⁴³ A classification map for the Emergency Services Levy in Queensland can be accessed in <https://experience.arcgis.com/experience/96af23b49c7d4b8da860e78fa336994b/>.

would give property owners confidence in the classification boundaries and the merits of regional discounts.

5.5 Option E: Fixed charges with surcharges by property type

This option is designed with a particular focus on the principle of equity by considering property type. Option E retains a four-tier model of increasing fixed charges on land values but introduces surcharges or alternative levy amounts to specifically identified property types to ensure all property owners make a fair contribution to the funding of emergency services agencies.

For the residential sector, the relative contribution between units and houses is rebalanced with a \$50 surcharge on units.

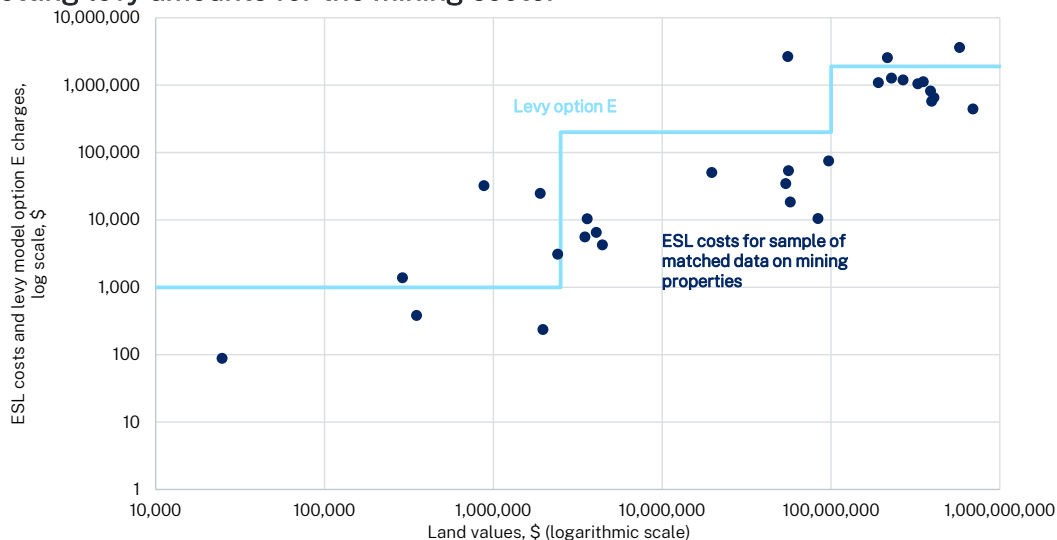
As discussed in chapter 3, owners of units tend to pay a lower ESL than owners of houses in similar locations. Units also tend to have lower land values relative to houses in similar locations because the value of land typically represents a lower proportion of the total property value for many units. With a uniform levy, owners of units would tend to pay a lower replacement levy compared to owners of houses in similar locations.

Rebalancing the relative contributions between units and houses adds some complexity. However, it aims to achieve a more equitable outcome with owners of houses and units in similar locations paying a more even share of the replacement levy. A practical way to identify units in the residential sector is based on information on whether a property is part of a strata or company title.

For the industrial sector, option E separates mining properties from other industrial properties. Local councils identify and charge different rates to mining properties. This could be leveraged as a practical approach to identify mining properties and apply different levy rates to reflect higher and more dispersed land values in the mining sector compared to other industrial properties.

Higher levy rates for the mining sector relative to other industrial properties will better align with the principle of equity and better match existing ESL contributions. As illustrated in figure 12, some mining properties, especially large mines, currently make significant ESL contributions. In addition, and as discussed in the next chapter, separating mining properties from the industrial sector allows for the replacement levy to better align with current ESL contributions for non-mining industrial properties.

Figure 12: Setting levy amounts for the mining sector



Source: NSW Treasury calculations based on 2023-24 matched data on ESL costs per property.

No specific model is presented under option E for the commercial, farm and public benefit sectors. This is because there is no practical way to identify commercial property, farms and public benefit property by type, except by using location or land-use zoning. Identifying these properties by type in a meaningful way to inform the design of alternative levy model options, and implementing those options, would require the development of a new database, with associated costs and lead time.

Table 8: Levy model options, levy amounts based on land values, by property sector, 2023-24

	Residential		Commercial		Industrial		Farm		Public benefit	
	Land value	Levy	Land value	Levy	Land value	Levy	Land value	Levy	Land value	Levy
Option A	Up to \$302,100	\$175	Up to \$346,000	\$275	Up to \$486,000	\$400	Up to \$1,000,000	\$450	Up to \$363,000	\$275
	\$302,100 to \$728,000	\$225	\$346,000 to \$800,400	\$800	\$486,000 to \$1,100,000	\$1,200	\$1,000,000 to \$1,760,000	\$600	\$363,000 to \$963,000	\$950
	\$728,000 to \$1,410,000	\$300	\$800,400 to \$2,410,000	\$2,500	\$1,100,000 to \$3,310,000	\$7,500	\$1,760,000 to \$4,010,000	\$1,000	\$963,000, to \$3,260,000	\$2,250
	Above \$1,410,000	\$523	Above \$2,410,000	\$12,972	Above \$3,310,000	\$42,857	Above \$4,010,000	\$2,280	Above \$3,260,000	\$5,513
Option B	Up to \$302,100	\$158	Up to \$346,000	\$215	Up to \$486,000	\$325	Up to \$1,000,000	\$400		
	\$302,100 to \$728,000	\$225	\$346,000 to \$800,400	\$550	\$486,000 to \$1,100,000	\$800	\$1,000,000 to \$1,760,000	\$550	Up to \$1,580,000	\$200
	\$728,000 to \$1,410,000	\$300	\$800,400 to \$2,410,000	\$1,653	\$1,100,000 to \$3,310,000	\$6,102	\$1,760,000 to \$4,010,000	\$925		
	Above \$1,410,000	\$573	Above \$2,410,000	\$15,472	Above \$3,310,000	\$46,857	Above \$4,010,000	\$2,780	Above \$1,580,000	\$5,861
Option C	Up to \$170,100	\$141	Up to \$117,600	\$175	Up to \$193,200	\$275	Up to \$486,000	\$375		
	\$170,100 to \$302,100	\$175	\$117,576 to \$346,000	\$275	\$193,200 to \$486,000	\$400	\$486,000 to \$1,000,000	\$450		
	\$302,100 to \$728,000	\$225	\$346,000 to \$800,400	\$450	\$486,000 to \$1,100,000	\$800	\$1,000,000 to \$1,760,000	\$525	Up to \$3,260,000	\$175
	\$728,000 to \$1,410,000	\$300	\$800,400 to \$2,410,000	\$1,725	\$1,100,000 to \$3,310,000	\$6,073	\$1,760,000 to \$4,010,000	\$918		
	\$1,410,000 to \$1,941,700	\$523	\$2,410,000 to \$4,390,000	\$12,972	\$3,310,000 to \$6,700,000	\$42,857	\$4,010,000 to \$6,060,000	\$2,280		
Above \$1,941,700	\$623	Above \$4,390,000	\$17,972	Above \$6,700,000	\$50,857	Above \$6,060,000	\$3,280	Above \$3,260,000	\$11,735	
Option D	For option D, levy amounts displayed are for non-concessional property located in Greater Sydney. Regional discounts apply: 20% discount for properties located in a regional town/city, a 40% discount for properties in large rural areas and a 50% discount for properties in rural areas.									
	Land value	Levy	Land value	Levy	Land value	Levy	Land value	Levy	Land value	Levy
	Up to \$302,100	\$189	Up to \$346,000	\$289	Up to \$486,000	\$417	Up to \$1,000,000	\$669	Up to \$363,000	
	\$302,100 to \$728,000	\$243	\$346,000 to \$800,400	\$841	\$486,000 to \$1,100,000	\$1,251	\$1,000,000 to \$1,760,000	\$892	\$363,000 to \$963,000	\$212
	\$728,000 to \$1,410,000	\$324	\$800,400 to \$2,410,000	\$2,628	\$1,100,000 to \$3,310,000	\$7,816	\$1,760,000 to \$4,010,000	\$1,487	\$963,000, to \$3,260,000	
Above \$1,410,000	\$564	Above \$2,410,000	\$13,637	Above \$3,310,000	\$44,663	Above \$4,010,000	\$3,390	Above \$3,260,000	\$6,220	
Option E	Residential - houses		Residential - units		Industrial (excluding mining)		Mining		No model based on property type is proposed for the commercial, farm and public benefit sectors. For these, there are no practical ways to identify properties by type without the need to develop a new database, with associated costs and lead times.	
	Land value	Levy	Land value	Levy	Land value	Levy	Land value	Levy		
	Up to \$302,100	\$161	Up to \$302,100	\$211	Up to \$485,400	\$300	Up to \$2,500,000	\$1,000		
	\$302,100 to \$728,000	\$211	\$302,100 to \$728,000	\$261	\$485,400 to \$1,100,000	\$800	\$2,500,000 to \$100,000,000	\$200,000		
	\$728,000 to \$1,410,000	\$286	\$728,000 to \$1,410,000	\$336	\$1,100,000 to \$3,290,000	\$4,500	Above \$100,000,000	\$1,901,400		
Above \$1,410,000	\$509	Above \$1,410,000	\$559	Above \$3,290,000	\$42,254					

6 Impacts of reform on property owners

The levy model options in this paper aim to achieve equitable outcomes, support efficiency, be transparent and relatively simple to understand, ensure cost recovery, and provide a reliable and sustainable funding source for NSW’s emergency services agencies. Any replacement levy that improves equity and simplicity compared to the ESL would be expected to have different impacts across levy payers. Changes in levy burdens are an important consideration, particularly for the approach to transitioning to the replacement levy.⁴⁴

This chapter compares the five levy model options presented in chapter 5, including the impacts on property owners, sectors and cohorts of properties across models and alignment with the principles equity and simplicity. The analysis focuses on property owners who currently pay the ESL. The impacts on owners of property who don’t pay the ESL because they don’t have insurance have not been included.⁴⁵

Around 55% of insured properties would have incurred a lower levy

Modelling based on 2023-24 data indicates that around 55% of insured properties in NSW would have incurred a lower replacement levy relative to the ESL costs under all levy model options (see table 9).

Table 9: Share of insured properties estimated to pay less under a replacement levy

Option A	54.4%
Option B	55.7%
Option C	55.7%
Option D	54.2%
Option E	55.9%

Source: NSW Treasury estimates based on a sample of insured properties, 2023-24 data, and assuming a 5% non-insurance rate across all property sectors (noting non-insurance rates are highly uncertain, particularly for non-residential properties). Option E for commercial, farmland and public benefit sectors is modelled to be identical to option A.

While the proportion of insured property owners who would have paid less varies only slightly between options, the impact of different models on specific sectors and cohorts of property owners is more significant. Different models may therefore be preferred for different property sectors based on their suitability for the sector and alignment with the reform objectives and design principles.

⁴⁴ Modelling throughout this paper was conducted at the property level, not by property owner. For simplicity, the text at times refers to the share or number of property owners that are estimated to pay more or pay less under the replacement levy compared to under the current system. A more accurate description of the modelling would be the share or number of properties estimated to incur higher or lower levy amounts under a replacement levy. This subtle distinction is important, as some property owners own multiple properties and may find that they will pay less on one property and more on another.

⁴⁵ Property owners who do not take out insurance will see their levy burden increase under a replacement levy. Data identifying property owners without insurance was not obtained for this analysis and therefore the number of privately-owned properties without insurance, the type of property, location or land value is not available.

6.1 Levy model options impact property sectors differently

More residential, farm and public benefit property owners are likely to pay less

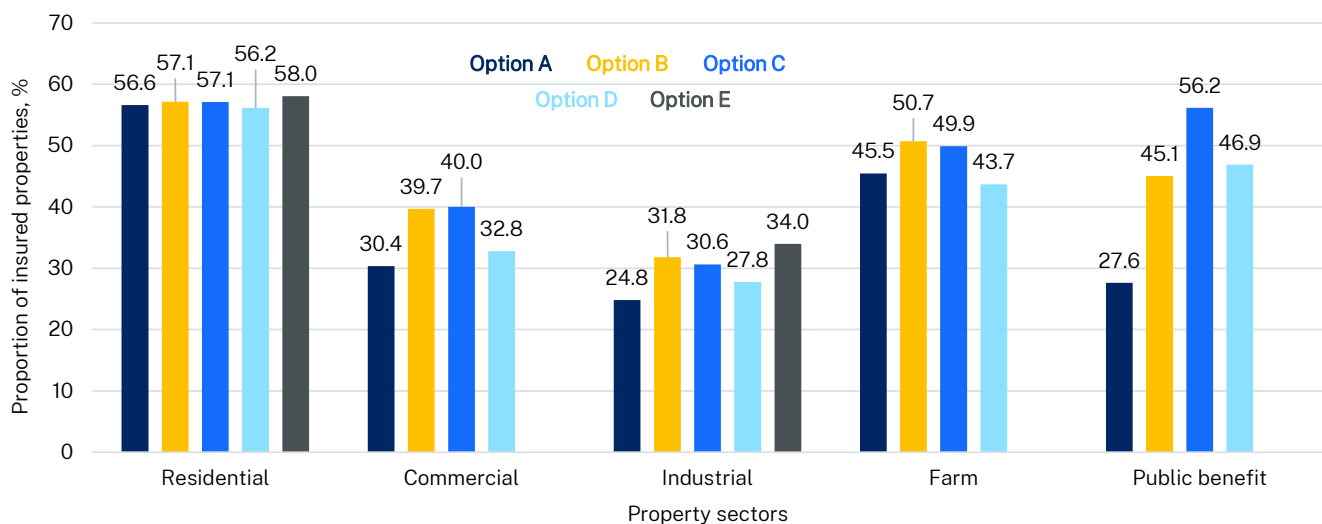
Figure 13 shows the share of insured property owners estimated to have paid less under a replacement levy compared to under the ESL, for each property sector and across each of the five levy model options.

Around 57% of owners of insured residential properties are estimated to have paid less under a replacement levy, which is a higher share than for the other property sectors. As discussed in chapter 4, the forgone ESL costs currently collected on government property and motor vehicle insurance is not recovered from residential property. This allows the replacement levy amounts for the residential sector to be set lower than what they would otherwise need to be.

The farm and public benefit sectors are also estimated to have had larger shares of property owners paying less under a replacement levy compared to the commercial and industrial sectors. This is a result of the sectoral contributions approach assumed in chapter 4, which ensures that the farm and public benefit sectors experience a similar average burden under the replacement levy as they do under the ESL.

The commercial and industrial sectors are estimated to have had the lowest shares of property owners paying less under a replacement levy. This arises because the forgone ESL on government property and motor vehicle insurance is recovered from these sectors.

Figure 13: Share of insured properties estimated to pay less under a replacement levy



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

There is a trade-off between the share of property owners expected to pay less and the burden on those paying more

Generally, setting the replacement levy to better align with land values will more closely reflect property owners' capacity to pay. However, increasing the share of property owners that would pay less under a replacement levy relative to the ESL must come at the expense of increasing the levy burden on property owners that pay more, given that the revenue target is unchanged. Potential changes in levy burdens between the ESL and the replacement levy are an important consideration,

particularly when assessing how levy model options align with the principles of equity and simplicity.

A more detailed discussion of the distributional effects within sectors is provided in section 6.3.

Different levy model options may be preferred for different property sectors

Property sectors are impacted differently depending on any given levy model. For example, for the residential and industrial sectors, the greatest share of property owners paying less is under levy model option E, and under levy model option C for the commercial and public benefit sectors.

The revenue target can be achieved by any combination of levy models across sectors. So, in practice, the replacement levy could be constructed by selecting the levy model for each sector that maximises the share of property owners estimated to pay less under the reform compared to the ESL and best aligns with the reform objectives and design principles. As discussed above, while all levy models are designed in line with the design framework, each model presents a different trade-off between the principles of equity and simplicity.

6.2 Owners of properties with lower land values are more likely to pay less

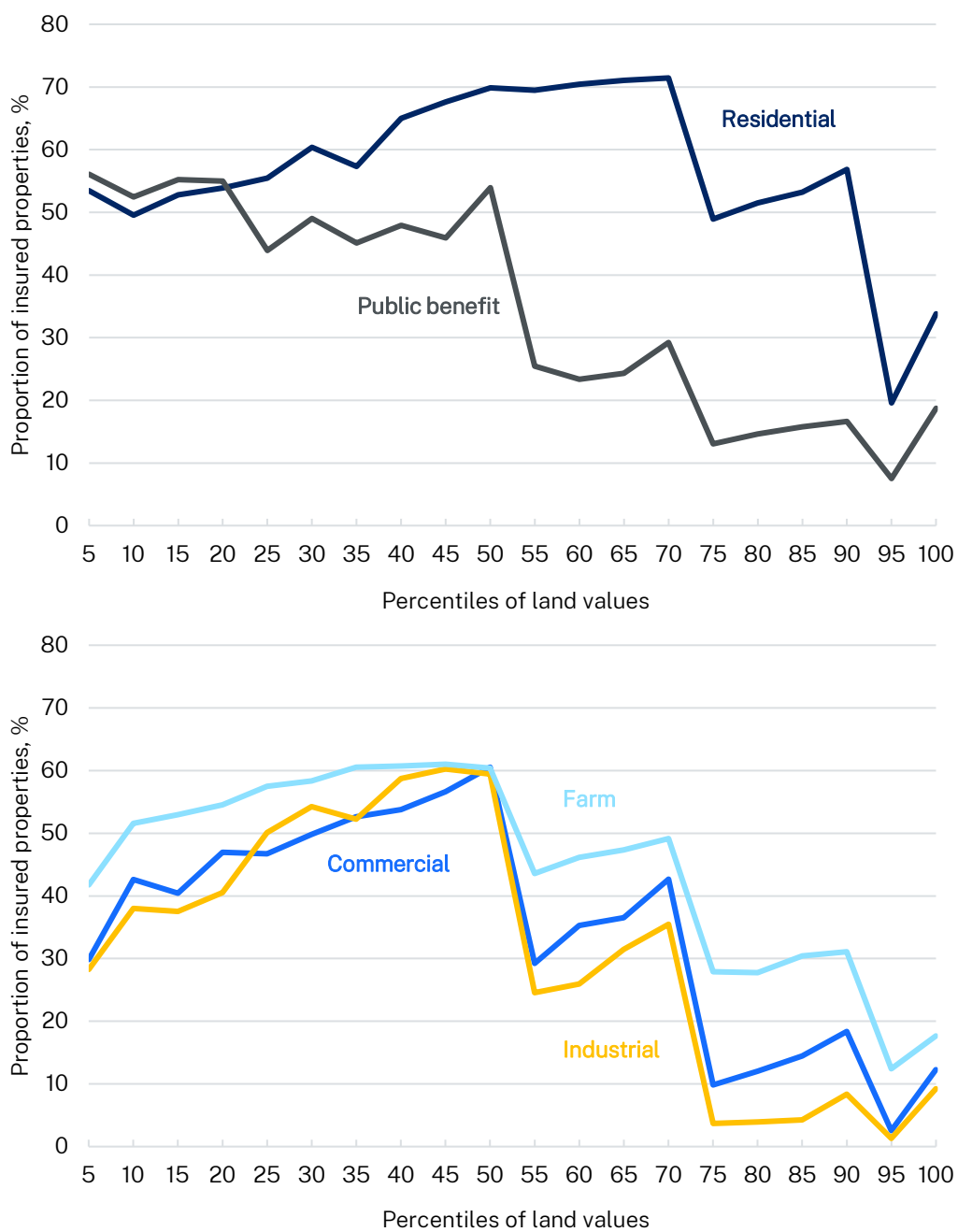
A replacement levy aligned with capacity to pay places a lower burden on owners of properties with lower land values

Across all property sectors, owners of properties with lower land values would be more likely to pay less under the replacement levy than they do under the ESL compared to owners of higher value properties. This is illustrated in figure 14 for option A.

This finding is consistent across levy model options, as shown for the residential sector in figure 15. On average, around 62% of owners of insured residential properties in the bottom 75% of land values are estimated to have paid less under a replacement levy, compared to only 42% of owners of insured residential properties in the top 25% of land values.

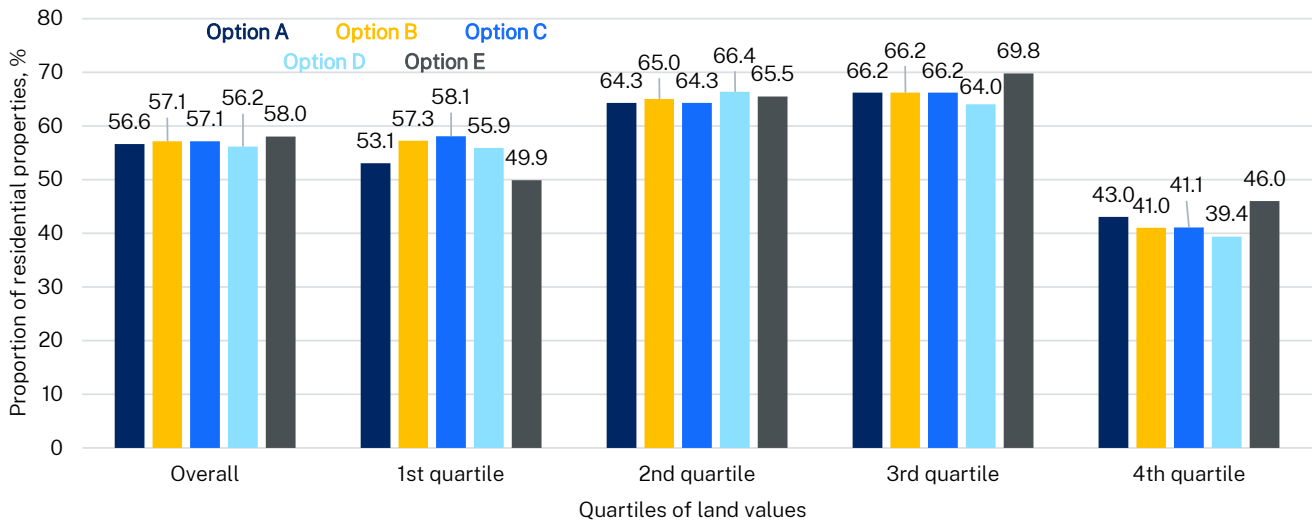
Across each property sector, levy model options with greater escalation in fixed charges (options B and C relative to option A) have a higher share of owners of insured properties in the bottom 75% of land values estimated to have paid less under a replacement levy compared to owners of insured properties in the top 25% of land values.

Figure 14: Option A, share of insured properties paying less under a replacement levy, by land values



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

Figure 15: Share of insured residential properties paying less under a replacement levy, by quartiles



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

These results reflect the design principles of the reform, which seek to balance simplicity with the equity considerations of ensuring that all property owners make a minimum contribution to the funding of the state’s emergency services agencies, that contributions align with capacity to pay, and that the impact of changes in levy burdens is moderated.

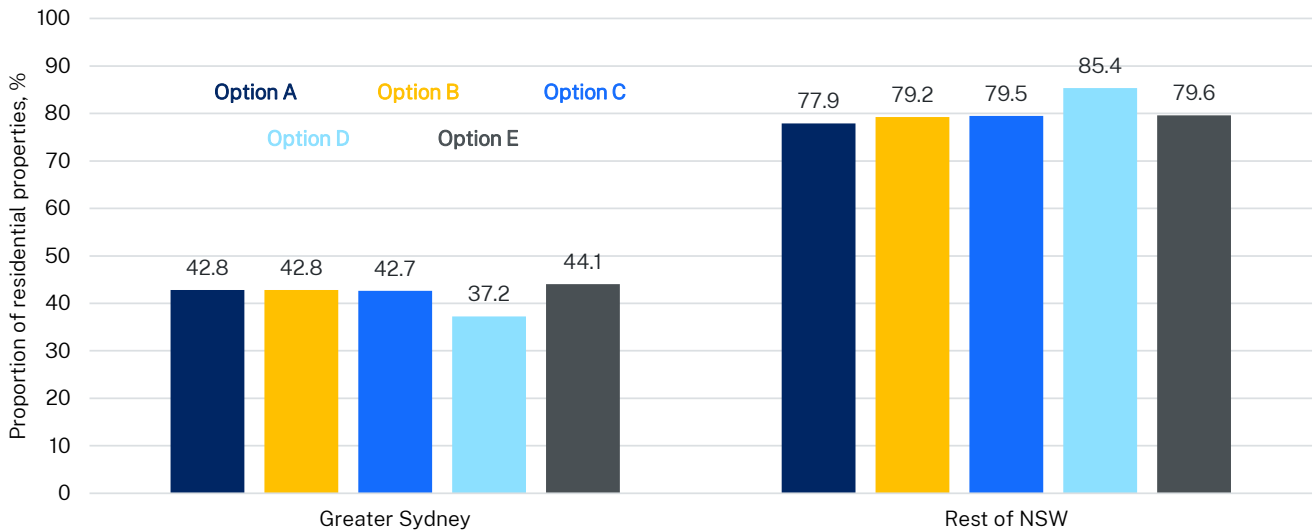
Property owners outside Greater Sydney would be more likely to pay less under a replacement levy

Across all property sectors, owners of insured properties outside Greater Sydney would be more likely to pay less than under the ESL compared to owners of insured properties in Greater Sydney. This is driven by two factors:

- Properties outside Greater Sydney tend to have higher insurance premiums relative to properties with similar land values located in Greater Sydney. As such, these property owners stand to gain more from removing the ESL.
- Land values are generally lower outside Greater Sydney. As a result, owners of properties outside Greater Sydney would tend to pay a lower replacement levy compared to owners of properties located in Greater Sydney.

For the residential sector, owners of insured properties located outside Greater Sydney are found to have been nearly twice as likely to pay less under a replacement levy than under the ESL compared to owners of insured properties in Greater Sydney (see figure 16). This finding also holds true across the other property sectors, though the specific shares paying less vary across sectors.

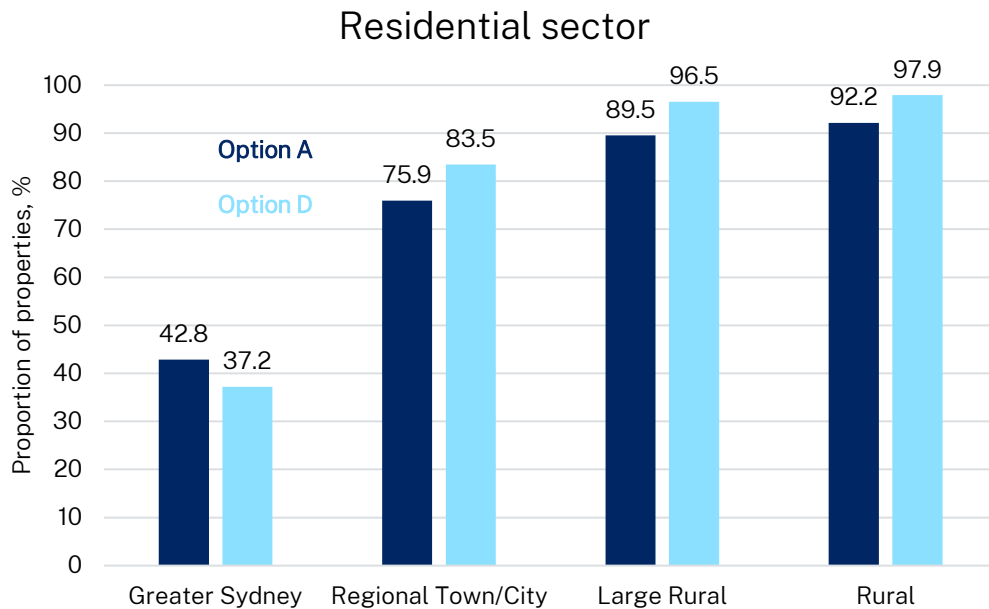
Figure 16: Share of insured residential properties paying less under a replacement levy, by location



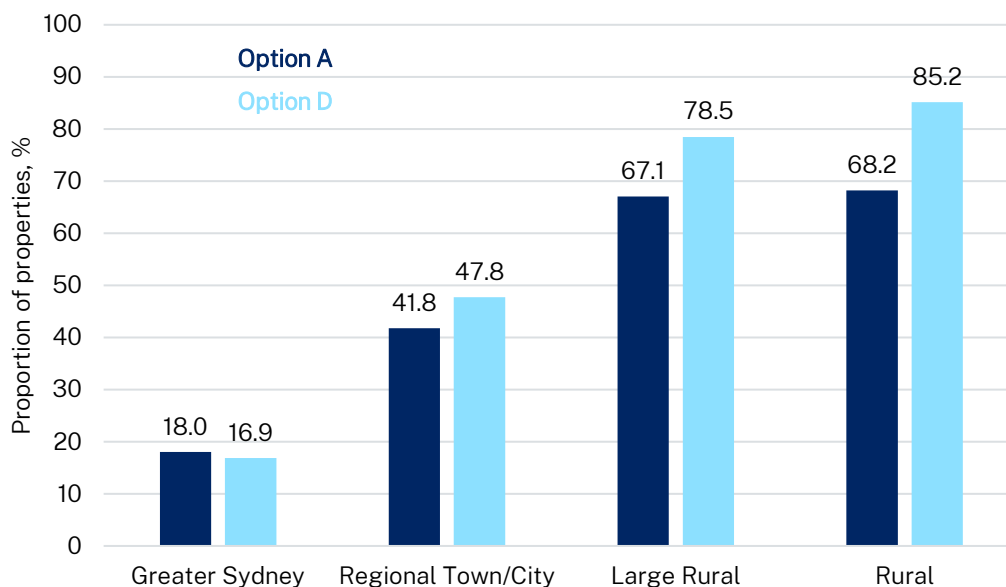
Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

This is further emphasised under option D. As illustrated in figure 17, both options A and D show that regional and rural insured property owners would have been more likely to pay less under the replacement levy than under the ESL, compared to owners of insured properties in Greater Sydney. With regional discounts, option D would have reduced the levy burden on owners of regional and rural properties compared to option A at the expense of increasing it for owners of properties in Greater Sydney.

Figure 17: Share of insured residential and commercial properties paying less under a replacement levy, by region



Commercial sector



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

Owners of houses would be more likely to pay less under a replacement levy

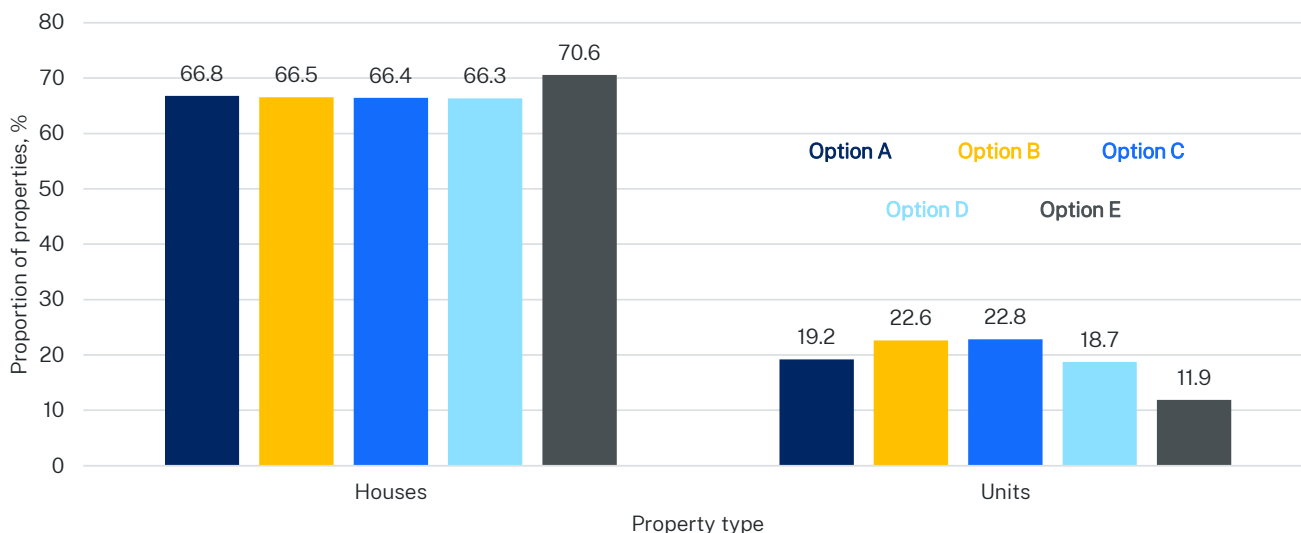
Owners of insured houses would be more likely to pay less under a replacement levy than they do under the ESL, compared to owners of units. This is because units tend to have lower insurance premiums relative to houses with similar land values. As such, unit owners stand to gain less from removing the ESL. As illustrated in figure 18, on average across the levy model options, around 67% of owners of insured houses are estimated to have paid less under a replacement levy, compared to an average of 19% of owners of units.

Units have relatively lower land values compared to houses. As such, around 64% of unit owners would have paid the lowest levy amounts under each levy model option.⁴⁶ This means the majority of unit owners would have paid less than owners of houses in the same locations under the replacement levy. As discussed in section 5.5, a more equitable outcome could involve owners of units and houses in similar locations paying a more even share of the replacement levy.

Option E attempts to achieve this through a \$50 surcharge on units. This would have resulted in fewer unit owners paying less than they would have under the ESL relative to any of the other levy model options (see figure 18). This would also have enabled more owners of insured houses to pay less compared to the other levy model options (71% compared to around 67%).

⁴⁶ To be precise, 64% of units have a land value up to \$302,100, which is the first land value threshold under options A, B, D and E, and the second land value threshold under option C. Moreover, around 93% of units have a land value up to \$728,000, which is the second land value threshold under options A, B, D and E, and the third under option C. See table 8.

Figure 18: Residential sector, share of insured houses and units paying less under a replacement levy



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

6.3 A simpler and more equitable levy system will result in changes in levy burdens

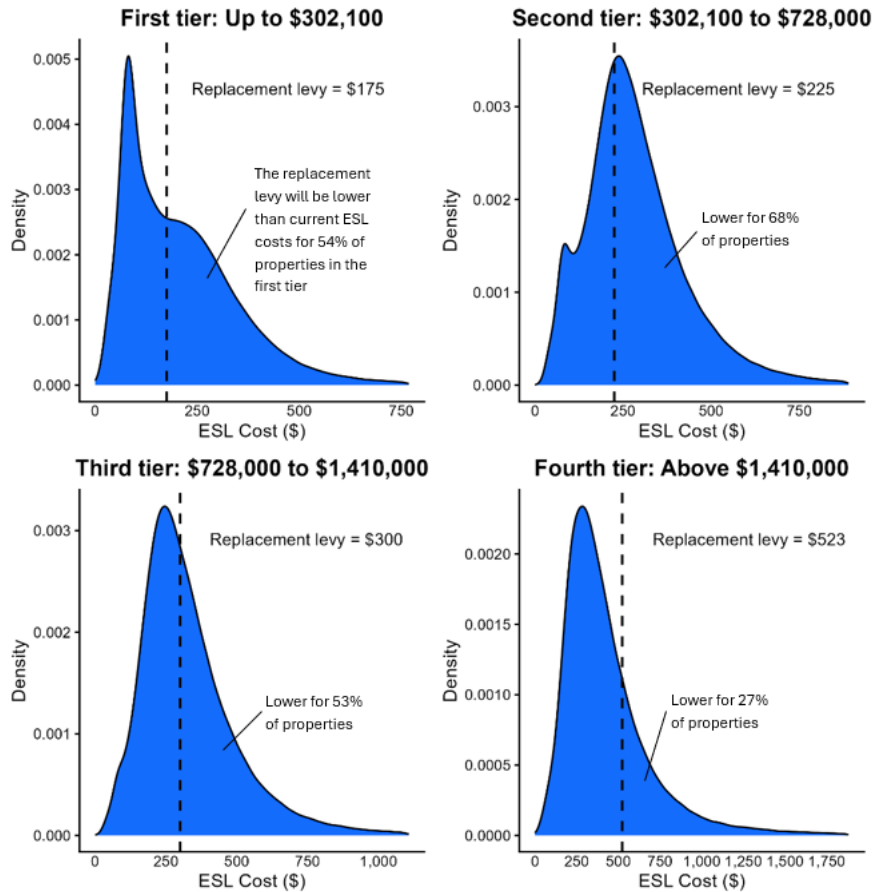
As discussed in chapter 3, any replacement levy model with increasing fixed charges based on land values will result in most owners of properties with similar land values paying the same levy. This means that some owners with properties of similar land values but with different characteristics, including differing locations, property types, exposure to risk or levels of insurance, may pay more or pay less under a replacement levy than they do under the current ESL.

Savings can be significant under a replacement levy while increases in burdens are capped

All levy model options canvassed in this paper constitute a simpler and more transparent approach to setting levy contributions for property owners than the current ESL system. A key benefit of models of fixed charges is that levy burdens are capped. Effectively, this means that increases in levy burdens relative to the current ESL are limited to the relevant levy amount that applies to each property. Conversely, reductions in levy burdens compared to the current ESL system can be significant.

This is illustrated in figure 19 for the residential sector under option A. The figure splits residential properties into the four tiers defined under option A. For each tier, it shows the spread of ESL costs for insured residential properties compared to the replacement levy amount payable under option A.

Figure 19: Residential sector, distribution of ESL costs for option A's four tiers



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data. The largest 1% of ESL costs within each tier have been trimmed from the distribution for presentation purposes. However, percentages of properties estimated to be paying less under the replacement levy reflects the entire sample of insured properties.

The figure shows that for all levy tiers, the potential reductions in levy burdens are larger than the potential increases. For example, for owners of residential property with land values under \$302,100, the maximum increase in levy burden would have been, effectively, up to the applicable levy amount of \$175.⁴⁷ In contrast, reductions in levy burdens could have been significantly higher. For example, within the same tier, a property owner who paid \$500 in ESL, would have saved \$325 under option A.⁴⁸

Figure 20 provides further insights. It groups insured properties in the residential and commercial sectors by the amount property owners would have paid above or below what they paid under the ESL. The majority of residential property owners would have experienced a reduction or an increase in their levy burdens of less than \$100. However, some property owners would have experienced relatively more significant changes in levy burdens. Of those, more would have seen savings than increases in levy burdens.

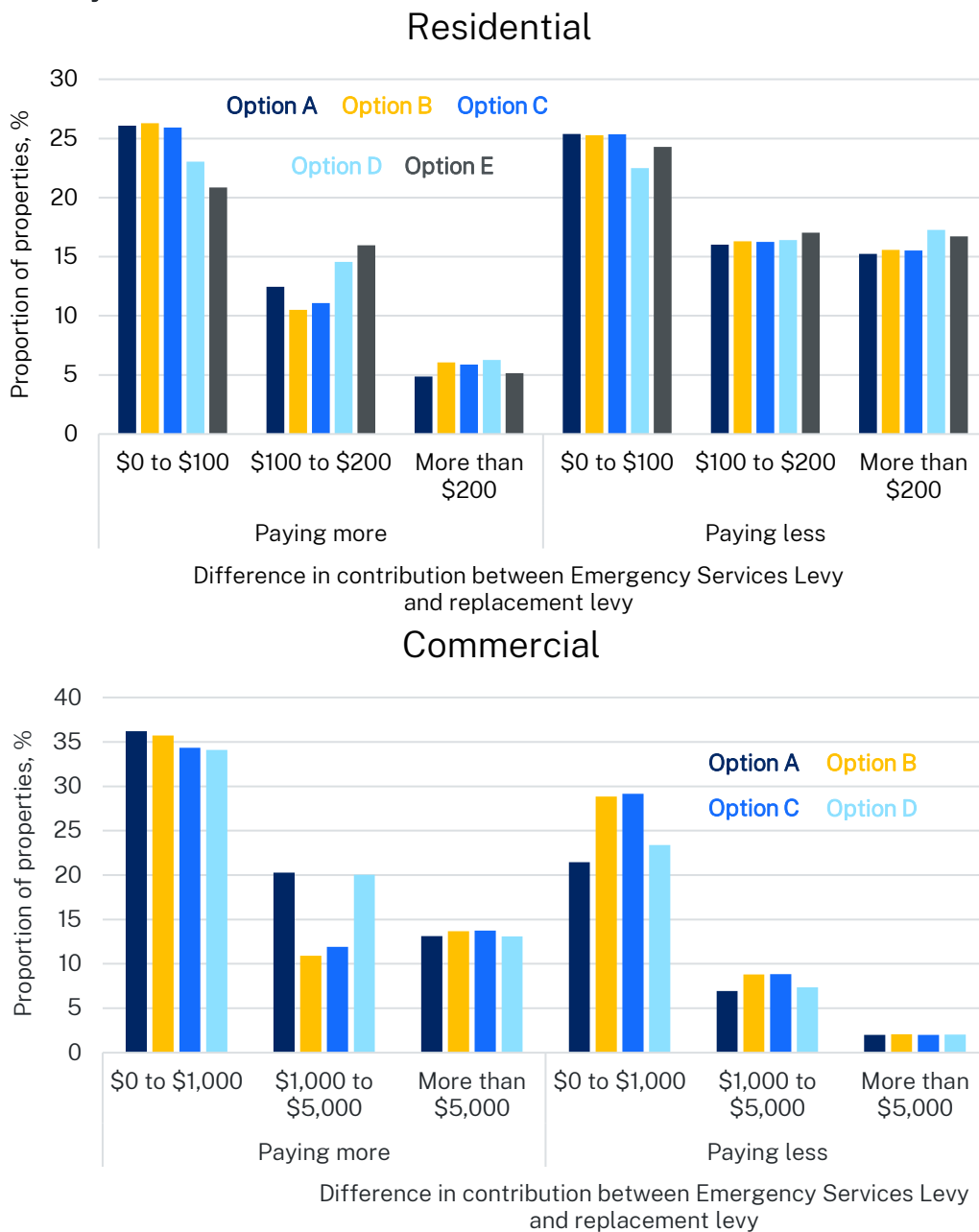
⁴⁷ Property owners likely to see an increase in levy burden are located, in figure 19, within the blue area to the left of the vertical replacement levy amount dashed line. The closest they are to the dashed line, the lower the increase in levy burden they are likely to experience compared to the ESL. Owners of uninsured property, who pay no ESL, would see the largest increase in levy burden within the relevant tier and have not been included in the figure.

⁴⁸ In figure 19, property owners likely to see a reduction in levy burden are located within the blue area to the right of the vertical replacement levy amount dashed line.

Changes in levy burdens would have been more significant in the commercial sector. The majority of commercial property owners would have experienced a positive or negative change in levy burdens of less than \$1,000.

Changes in levy burdens in the commercial (and industrial) sector will tend to be larger than in other sectors. This is because current ESL costs tend to be significantly higher than in the residential sector, which results in higher replacement levy amounts as discussed in chapters 3 and 5. Furthermore, the commercial (and industrial) property contributions are also set to replace the forgone revenue under the ESL from government property and motor vehicle insurance. This means that replacement levy amounts will necessarily increase on average relative to the ESL.

Figure 20: Residential and commercial sector, share of insured properties by net impact of replacement levy



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

Changes in levy burdens are likely to be smaller for owners of properties with lower land values

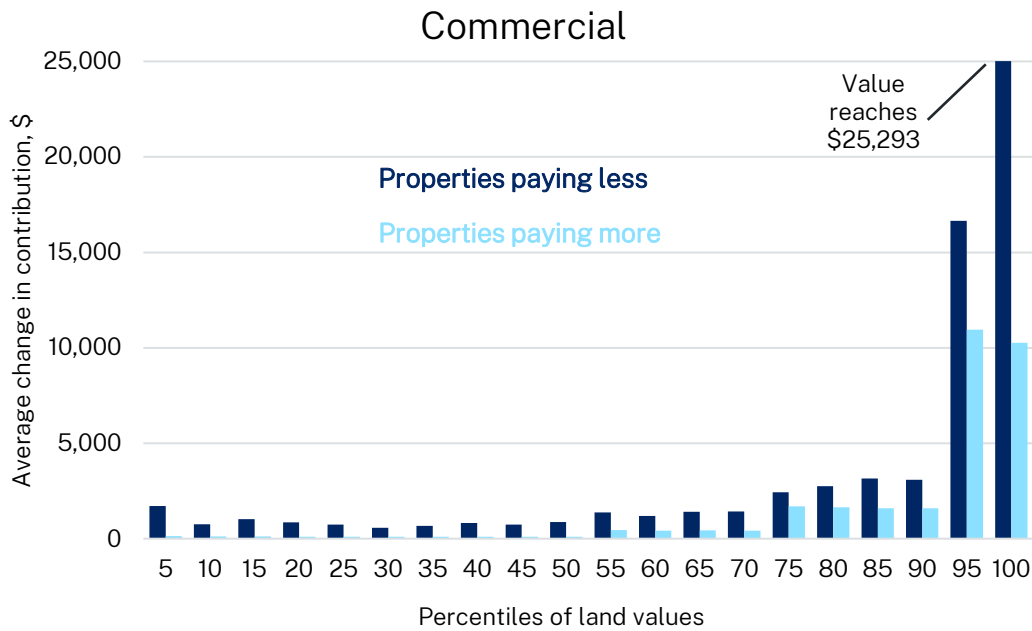
More accentuated changes in levy burdens will tend to be associated with properties with higher land values. For properties with lower land values, changes in levy burdens, be it increases or reductions, will tend to be relatively more moderate. This is illustrated in figure 21 for the residential and commercial sectors, under option A.

As discussed in section 2.3, levy amounts are designed to minimise the impact of the replacement levy on owners of properties with lower land values, reflecting their capacity to pay, while ensuring all property owners make a minimum contribution. For example, under option A for the residential sector, the replacement levy amounts for the lower three tiers are set close to the median ESL costs for properties in those tiers. This ensures a large share of owners of insured properties within these tiers see a relatively small change in levy burden.

At the other end of the distribution, owners of properties with higher land values are more likely to see more significant changes in levy burdens. For these properties, levy amounts ensure that sufficient revenue is raised while, at the same time, moderating the impact of the replacement levy. For example, under option A for the residential sector, the replacement levy for the top tier is set at a relatively high value compared to the median ESL costs paid by property owners within that tier. This results in larger changes in levy burdens compared to owners of properties with lower land values.

Figure 21: Residential and commercial sector, average change in levy burden under option A, for insured property





Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data.

Greater escalation in fixed charges will result in larger changes in levy burdens for some property owners

The analysis above provides insights into the possible consequences from adjusting the replacement levy amounts across property owners.

For example, a reduction in the top tier levy amount would increase the share of property owners in that tier that would pay less compared to the current ESL. But, to raise the same revenue, it would need to be offset by an increase in the levy amount paid by other property owners, which in turn would reduce the share of property owners in that tier paying less than the current ESL burden.

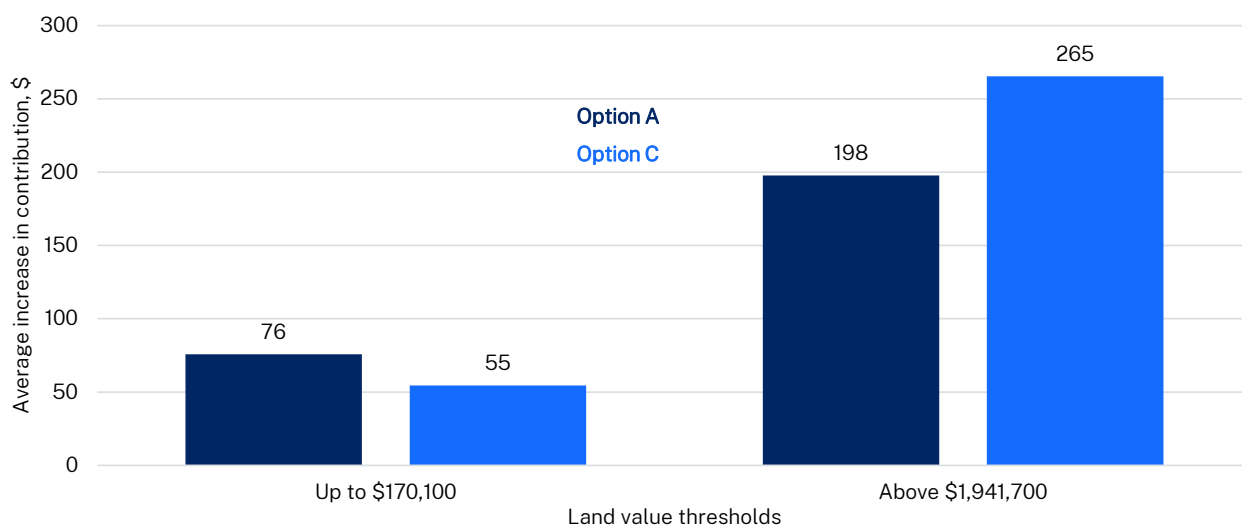
Conversely, a reduction in levy amounts for lower-land-value properties must necessarily have a corresponding increase in charges on owners of higher-land-value properties.

For example, option C proposes a levy amount that is \$34 lower relative to option A for residential properties with land values below \$170,100 (see table 8). This lower levy amount increases the share of residential properties with land values below \$170,100 estimated to have paid less than the ESL from 52% to 61%.

However, this reduction in the levy amount for properties with low land values results in an additional burden on properties in the top levy tier. Under option C, owners of insured properties with land values above \$1,941,700 would have paid a levy amount that is \$100 higher compared to option A.⁴⁹ For insured residential properties estimated to have paid more under option C relative to A, figure 22 shows the average increase in levy burdens compared to the ESL.

⁴⁹ Option C places a \$100 surcharge on properties in the top levy tier relative to option A. Some property owners who were paying less relative to the ESL under option A, may therefore pay up to \$100 more under option C relative to the ESL. Hence the average increase in contributions for property owners estimated to pay more under a replacement levy is less than \$100.

Figure 22: Average increase in contributions for insured residential properties paying more under a replacement levy



Source: NSW Treasury estimates based on a sample of insured properties, 2023-24 data. Land values correspond to the thresholds for the residential sector for option C (see table 8). Levy amounts for options A and C are identical for land values between \$170,100 and \$1,941,700.

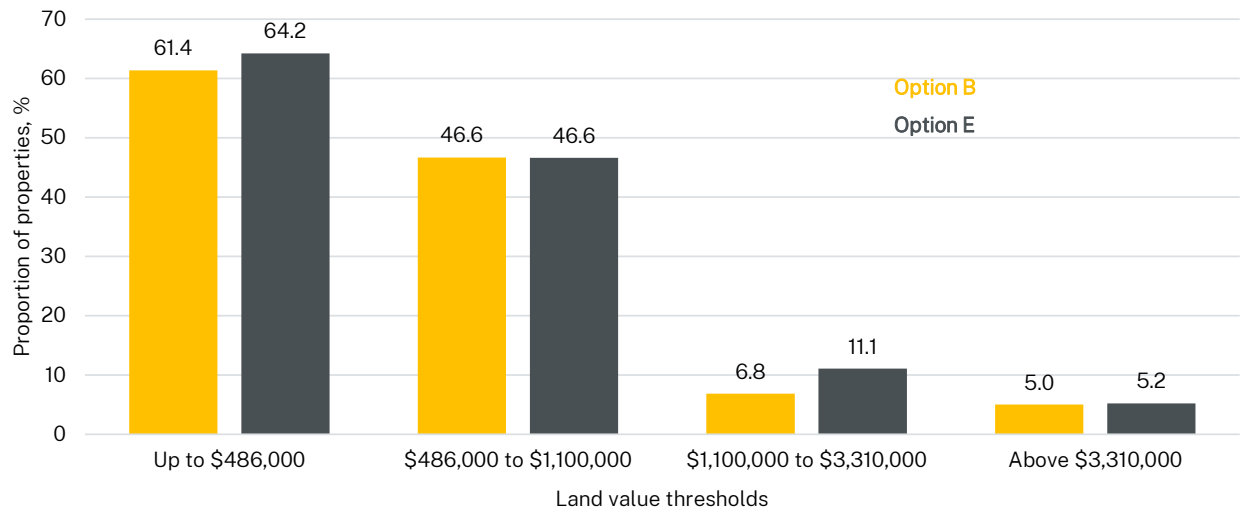
Particular consideration should be given to increasing levy amounts for owners of property with high land values in the public benefit sector. The public benefit sector consists of a wide variety of properties such as hospitals, non-government schools, places of worship, libraries and properties used for a range of not-for-profit purposes. As a result, owners of public-benefit properties are likely to vary considerably in their capacity to meet the increased cost of higher replacement levy amounts.

Lower levies for most industrial properties are possible by levying mining properties separately

Option E proposes a separate levy structure for mining properties, distinct from other industrial-sector properties. Some mines, particularly larger ones, currently make significant ESL contributions. Levying mining and other industrial properties under the same levy model, as is the case in options A to D, results in generally higher levy amounts imposed on owners of non-mining industrial property, some of whom currently contribute much less in ESL.

Carving out mining properties from the industrial sector allows for the design of a levy model that better represents the ESL contribution of each sector. By reducing the levy amounts for non-mining industrial property, option E results in an increase in the share of non-mining-industrial-property owners estimated to have paid less than under the current ESL (see figure 23, which compares option E and B for the non-mining industrial property sector).

Figure 23: Industrial sector, share of insured properties paying less under a replacement levy



Source: NSW Treasury estimates based on sample of insured properties, 2023-24 data. Land values correspond to the thresholds for the industrial sector for option B (see table 8). Apart from option E, option B results in the greatest share of industrial property owners paying less, as shown in figure 13.

Appendix A: Interstate comparison of emergency services funding systems

Table 10: Comparison levies funding emergency services in Australia (except NSW and the Northern Territory)

	Victoria ^a	Queensland	Western Australia	South Australia	Australian Capital Territory (ACT)	Tasmania
Existing levy	Emergency Services and Volunteers Fund	Emergency Management Levy	Emergency Services Levy	Emergency Services Levy	Police, Fire and Emergency Services Levy	Fire Service Contribution (FSC), Insurance Fire Levy (IFL) & Motor Vehicle Levy (MVL)
Revenue base	Properties based on capital improved values (CIV)	Properties based on land use and level of fire services available	Properties based on gross rental value (GRV)	Properties based on capital improved values (CIV), and motor vehicle registrations	Properties based on land use and, for commercial properties, land values using average unimproved values (AUV)	FSC: properties based on assessed annual value (AAV), and level of fire services available IFL: prescribed classes of business insurance premiums MVL: motor vehicle registrations
Levy structure	Fixed charge and variable rate on properties Variable rates are dependent on land use	Fixed charge on properties Charges vary based on land use and level of fire services available	Variable rate on properties Rates vary depending on land use and the level of fire services available	Fixed charge and variable rate on properties Rates vary depending on land use and the level of fire services available In addition, a fixed fee is levied on motor vehicle registrations	Fixed charge or variable rate on properties, dependent on land use Residential and rural: uniform fixed charge Commercial: variable rate	FSC: annually determined variable rate on property to meet the difference between the State Fire Commission's annual operating costs, and other source funding IFL: variable rate on business insurance premiums. Rates dependent on insurance class MVL: flat fee on motor vehicle registrations
Property sectors / Emergency service provision sectors	Residential, commercial, industrial, primary production, public benefit	16 property sectors based on land use, and land use intensity. Five district classes based on the fire and rescue services provided	Single residential, multiple residential, farming, commercial, industrial, vacant land. Locations: metropolitan, regional cities, metropolitan fringe, country towns, pastoral/rural	Residential, commercial, industrial, rural, special community use, vacant and other. Four regions reflecting level of emergency service provision.	Residential & rural properties, and commercial properties	Permanent brigade, composite brigade, volunteer brigade, or general land
Agencies and services funded	90% of Fire Rescue Victoria; 95% of Country Fire Authority & Victoria SES; up to 95% of other emergency services agencies and programs	67% ^b of total operating income for the Queensland Fire Department	66% ^b of funding of the Department of Fire and Emergency Services	66% ^b of the spending on fire and emergency services	32% ^b of the net costs of police and emergency services	74% ^b of total operating income for the State Fire Commission
Concessions	Pensioner concession card and veteran gold card: \$50 concession on principal place of residence (PPR) Rebate for eligible CFA and VICSES volunteers on a PPR or farm Some farmers eligible for single farm enterprise exemption from multiple fixed charges.	A 20% discount is available on the levy the principal place of residence owned by the recipient of a Commonwealth or State pension.	Pensioners, senior or concession card holders receive the same rebate as the rebate on local government rates, on their principal place of residence. The rebate is up to 25% for seniors card holders, and up to 50% for pensioner concession and state concession card holders.	A range of card holders including pensioner concession, veteran gold, and seniors health card holders, and a range of Centrelink payment recipients / card holders receive a concession capped at \$46, as well as a lower variable tax rate, on their principal place of residence.	Pensioner concession and veteran gold card holders are entitled to receive a rebate on the levy capped at \$115, they are also eligible for the ACT government's 50% reduction in rates, capped at \$750, which would also apply to the levy.	FSC: 20% pensioner discount MVL: pensioners receive an \$8 discount in 2025-26
Vacant land treatment	Because the levy is calculated using CIV, levy charges on vacant land are lower	Vacant land is in Levy group 1 ^c , for which, under current rates, the amount of levy payable is more than 70% less than for other land uses	Because the levy is calculated using GRV, levy charges on vacant land are lower	Because the levy is calculated using CIV, levy charges on vacant land are lower	Vacant land is treated the same as non-vacant land	Because the levy is calculated using AAV, levy charges on vacant land are lower
Collection agent	Local councils	Local councils	Local councils	State government	Territory government	FSC: Local councils IFL & MVL: State government

Note: Northern Territory funds fire and emergency services from general territory government revenue. All other jurisdictions have some concessions for pensioners.

^aIn Victoria from 1 July 2026, the fixed charge for residential properties will be the same as the fixed charge for non-residential properties, and a 50% concession on the fixed charge will apply for exclusively residential-use principal place of residence.

^bThese percentages are not legislated and are based on the latest three years of available data.

^cQueensland levy group 1 includes advertising hoarding, jetty, park or garden with no improvements other than fences or gardens, and vacant land including vacant land with a fence.

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