Submission
No 51

EMERGENCY SERVICES FUNDING REFORM

Organisation: Net Zero Commission

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Emergency Services Funding Reform

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The Net Zero Commission is established under the Climate Change (Net Zero Future) Act 2023 to review progress towards, and advise on the NSW Government's actions to achieve, the state's emissions reduction targets and adaptation objective. In response to the Legislative Assembly Select Committee on Emergency Services Funding Reform, the Net Zero Commission provides this submission to support the NSW Government's deliberations and broader public understanding of this issue.

The *Climate Change (Net Zero Future) Act 2023* (the Climate Change Act) establishes a formal adaptation objective for the state to be 'more resilient to a changing climate'. The policy settings for insurance are of interest to the Net Zero Commission (the Commission) because of the key role of the insurance sector in providing community resilience to natural hazards by financing recovery from extreme weather events.

The options paper released by NSW Treasury in May 2026 presents five options for the replacement of the Emergency Services Levy (ESL) with a broad property-based levy aligned with the design principles of cost recovery, equity, efficiency, simplicity and sustainability.[1] The Commission is supportive of removing the ESL in its current form as it increases the cost of premiums for property insurance, places a financial burden on local councils and hinders community resilience to disaster events.

The current ESL is a key driver of insurance unaffordability in NSW and should be reformed

The Commission supports reforming the ESL in a manner that is likely to improve insurance affordability and reduce under-insurance in NSW. As noted by NSW Treasury in the 2026 options paper, the ESL made insurance premiums 18% more costly on average between 2017-18 and 2024-25[1] and multiple reviews have found it to be an inefficient tax that contributes to the high cost of insurance premiums.[2]

For insurance to effectively provide resilience to a changing climate, it needs to be affordable across the community so that coverage is sufficiently widespread to pool risk and enable a functioning insurance sector to pay out policyholder claims when extreme weather events occur.

In the context of increasing climate-related risks, insurance is essential for community resilience to climate-related hazards such as flooding, bushfires, coastal hazards, hail, storms and cyclones. This limits post-disaster financial hardship and reduces the costs for individuals or governments to pay for recovery. This is particularly important for events that cause widespread and/or catastrophic impacts and losses.

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[1] NSW Treasury 2026, Emergency services funding reform

[2] NSW Treasury 2024, Reforming the emergency services funding system

Over the past five financial years, the NSW Government has collected approximately $5.9 billion from insurers via the ESL. Insurers pass on the cost of the ESL to their policyholders, although the process for this is not transparent. Collecting funding of this scale through insurers is a key driver of insurance unaffordability, distorting the insurance market in NSW.

For the 2023-24 financial year, Local Government NSW identified that the ESL and its requirement for local councils to provide emergency service contributions and obligations amounted to $240.8 million of cost-shifting from the NSW Government to local government, of which the ESL amounted to $207.2 million.[3] The current ESL is inequitable for local councils, which are already experiencing an array of financial pressures, particularly as state budgets for emergency services have increased in recent years.[4] The Commission encourages the Committee to consider opportunities for any reformed funding model for emergency services to reduce the administrative and financial burden for local councils.

The current ESL increases the NSW Government's exposure to disaster relief and recovery costs by contributing to lower insurance coverage and greater under-insurance, thereby reducing the insurance sector's capacity to pool risk across communities. A broad, property-based levy is likely to promote greater uptake of insurance coverage to households that are not insured or under-insured and drive tangible progress towards making NSW more resilient to a changing climate.

ESL reform alone is unlikely to fully resolve insurance affordability issues in NSW

Reform of the ESL is necessary to improve insurance affordability in NSW over the long term. However, insurance premiums will continue to be under pressure from a range of factors, including increasing climate risk, rising labour and construction costs, and increasing reinsurance costs to Australian insurers driven by global insurance market conditions. The housing crisis and associated land-use planning decisions, including whether to build in areas exposed to greater risk, will continue to influence insurance affordability in NSW. This is underscored by the fact that growth in insured losses in recent decades has been attributed to increasing exposure of the built environment to risk.[5]

Modelling undertaken by Finity Consulting Pty Ltd is cited in the options paper and found that removing the ESL would be expected to more than offset the expected increase of average residential insurance premiums from exposure to the climate conditions projected for 2065-66.[1] The Commission is unable to comment on the validity of this finding without access to the modelling. However, a more precautionary approach may be warranted for considering the impact of future climate risk on insurance premiums than indicated by the modelling cited in the options paper. The Commission has undertaken work on the historical and future economic impacts of climate change on NSW which highlight that climate impacts will translate into direct effects on households in NSW over the coming decades[6] and many studies of the future economic impacts of climate change have

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[3] 2025 LGNSW Cost Shifting Report

[4] Standing Committee on State Development 2024, Ability of local governments to fund infrastructure and services

[5] Bovingdon et al 2025, Climate risk and response: Generating an industry-informed, future-focused, research agenda

[6] Net Zero Commission 2026, The economic impacts of climate change in NSW

underestimated the potential impacts of extreme events.[7,8] Although removal of the ESL should achieve an initial reduction in insurance premiums, the impact of climate change is likely to continue to influence affordability over time, particularly if increases in the frequency and/or intensity of extreme events eventuate as predicted, as these are consequential for insurance premiums.

Although consideration of these factors is not within the scope of the terms of reference for the Legislative Assembly Select Committee on Emergency Services Funding Reform, it is important that the NSW Government considers other barriers to insurance affordability in the coming years to ensure that NSW is more resilient to a changing climate. Some areas of NSW already experience extreme home insurance affordability stress, with approximately half of households paying more than a month of gross income for their insurance premium in the Northern Rivers.[9] This is primarily driven by poor planning decisions and associated flood risk contributing to higher underlying insurance premiums.[9]

The NSW Government can have substantial influence on these issues through its responsibility for land-use planning and development controls in addition to its responsibilities for specific hazard management frameworks, climate adaptation and disaster risk reduction. The Commission welcomes recent work by the NSW Government to exhibit a draft Climate Change and Natural Hazards State Environmental Planning Policy as an important and positive step forward to improve the integration of climate risk into land-use planning.

Sufficient resourcing of emergency services into the future is critical

Climate change will increase the frequency and magnitude of some natural disasters for Australia and NSW in the coming decades.[5] Emergency response and recovery agencies are likely to become increasingly stretched from these events and face constrained resources from global pressure on emergency services.[10] NSW Treasury has noted in its options paper 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 about 70% between 2024-25 and 2065-66 in real terms.[1]

For the reform to achieve the levy design principle of sustainability and achieve progress towards the adaptation objective under the Climate Change Act, it is essential that NSW emergency services and other relevant organisations are adequately resourced so that they can prepare for future impacts. Funding decisions should shift from reactive disaster response and recovery cycles towards proactive investment in preparedness and adaptation to reduce community exposure and vulnerability to disasters. The Commission’s forthcoming Annual Progress Report will offer further commentary on the opportunities offered by adaptation.

Although revenue neutrality is a key design principle of the reform to replace the ESL, it is important that any implemented funding model can adapt to future increases in emergency services costs which may be higher than indicated by modelling. The NSW Government should include appropriate mechanisms to regularly review or index any replacement levy in the implementation of the reform. This would ensure that the levy keeps pace with any increases in emergency services demand and

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[7] Neal et al 2025, Reconsidering the macroeconomic damage of severe warming

[8] Actuaries Institute 2025, Mobilising Investment for Climate Adaptation

[9] Actuaries Institute 2023, Home Insurance Affordability

[10] Richardson et al 2025, Increasing Fire Weather Season Overlap Between North America and Australia Challenges Firefighting Cooperation

maintains adequate funding over time. Any concessions or hardship provisions should also be factored into such a mechanism.

Closing remarks

The Commission is conscious that reforming the ESL requires the careful balancing of several competing factors and is encouraged that a key reform objective is to reduce insurance costs to households. The Commission requests that the Committee considers the adaptation objective outlined in section 10 of the Climate Change Act as part of its deliberations. The Commission may further examine issues relating to insurance and the adaptation objective under the Climate Change Act as part of its future work.