Submission
No 64

EMERGENCY SERVICES FUNDING REFORM

Organisation: Prosper Australia

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Dear Chair and Committee Members,

Prosper Australia welcomes the opportunity to make a submission to the Legislative Assembly Select Committee on Emergency Services Funding Reform.

Prosper strongly supports replacing the insurance-based Emergency Services Levy with a broader land-based levy. The current system raises insurance costs, contributes to underinsurance and non-insurance, and places the burden of funding emergency services on those who insure rather than on the broader community of property owners who benefit from those services.

The reform presents an important opportunity to place emergency services funding on a fairer, more efficient and more sustainable basis. Prosper's preferred approach is a broad, single-rate ad valorem levy on unimproved land values. If the reform is limited to the options presented in the Options Paper, Prosper considers Option C to be the best available model.

Our submission also recommends avoiding regional, vacant-land and property-type discounts or surcharges, and addressing genuine cashflow hardship through targeted deferral rather than permanent exemptions.

Prosper Australia would welcome the opportunity to appear before the Committee to discuss these recommendations.

Sincerely,

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About Prosper Australia

Prosper Australia is an independent economic research organisation focused on the role of land in the economy, particularly how land taxation shapes investment, housing supply and fairness. Established in 1890, Prosper is one of Australia's oldest economic advocacy organisations. Our longstanding position is that a fair tax system should capture unearned gains and return the proceeds for the benefit of society as a whole.

About the author

Cathal Leslie is a senior economist with expertise in tax, housing, financial system and insurance policy, and experience at the Australian Treasury, the Productivity Commission and the OECD. His work has included analysis of land and property tax settings, housing affordability, disaster insurance, financial system risk and the distributional consequences of public policy.

Summary of recommendations

Prosper Australia supports the NSW Government's decision to replace the insurance-based Emergency Services Levy with a broader property-based levy. Removing the ESL from insurance premiums would improve insurance affordability, reduce incentives for underinsurance and place emergency services funding on a more efficient and sustainable base.

However, Prosper considers that the Government should go further than the tiered fixed-charge models presented in the Options Paper. The replacement levy should be designed as a broad, low-rate ad valorem levy on unimproved land values. This would align liabilities more closely with land values, avoid arbitrary thresholds and minimise distortions to land-use decisions.

Preferred reform package

1) Adopt a flat ad valorem levy on unimproved land values as the preferred replacement model.
2) If limited to the options presented, adopt Option C. Its additional tiers provide a more granular relationship between land values and liabilities than the four-tier alternatives, while avoiding the regional and property-type departures introduced by Options D and E.
3) The government should avoid:
    a) regional discounts, as lower regional land values already reflect locational differences, including market demand, amenity and risk.
    b) property-type surcharges and carve-outs, including unit surcharges, because they weaken neutrality, increase complexity and invite lobbying.
    c) a general discount for vacant land, as it would reward land withholding, weaken incentives to bring well-located land into productive use and shift costs onto developed properties.
4) Address genuine hardship through targeted payment deferral rather than broad exemptions or discounts.
5) Allow eligible asset-rich but income-poor owner-occupiers to defer levy liabilities, with the deferred amount registered against the property and accruing interest at the NSW Government's borrowing rate, or another transparent benchmark.
6) Recover deferred liabilities when the property is sold, transferred or otherwise disposed of, or from the estate following the death of the final eligible owner-occupier.

1. Prosper's Preferred Approach: A Single-Rate Ad Valorem Levy on Land Values

Prosper's preferred replacement for the Emergency Services Levy is a broad-based, low-rate ad valorem levy on unimproved land values. The levy should apply at a single rate across the relevant land base, with liabilities increasing continuously and proportionately with land value.

A levy of this kind would be simple, efficient and difficult to avoid. It would draw revenue from an immobile base whose value is substantially created by public infrastructure, planning decisions, population growth and access to community services. Unlike the current ESL, it would not discourage insurance. Nor would it tax buildings, improvements, labour or productive investment.

A single-rate ad valorem levy would be preferable to the tiered fixed-charge models presented in the Options Paper. Under an ad valorem model, an additional dollar of land value attracts the same additional liability regardless of where the property sits in the value distribution. By contrast, the proposed fixed-charge models create notches: properties within a band pay the same amount, while liability jumps when a property crosses into the next band. This can produce materially different liabilities for otherwise similar properties on either side of a threshold.

These threshold effects may distort land-use and ownership decisions at the margin. Subdivision is economically beneficial where it enables more housing, more productive development or a better matching of land to market demand. However, a tiered fixed-charge model may encourage some owners to subdivide or sell part of a parcel merely to fall below a levy threshold. Conversely, because each new parcel attracts a minimum charge, the model may discourage efficient subdivision by multiplying fixed liabilities.

The concern is therefore not subdivision itself, but land-use decisions shaped by arbitrary levy thresholds. These effects are likely to be most relevant where subdivision or land assembly is already being considered, particularly for higher-value commercial, industrial or agricultural properties. Fixed bands may also increase incentives to dispute valuations near thresholds and discourage the assembly of adjoining sites where consolidation would trigger a higher charge.

A single-rate ad valorem levy would avoid these distortions. Selling part of a property would reduce the liability only in proportion to the value of the land sold, while combining parcels would increase liability only in proportion to the additional land value acquired. Decisions about subdivision, development and land assembly would therefore be more likely to reflect the productive use of the land rather than the structure of the levy.

Prosper's preferred model is consequently not one of the five options presented. The Government should model an additional option consisting of a single rate applied to unimproved land values, calibrated annually to recover the required emergency services funding.

2. Best Available Option in the Paper: Option C

If limited to the options presented, adopt Option C as the best available model. Its six-tier structure provides a more granular relationship between land values and liabilities than the four-tier alternatives, while avoiding the regional and property-type departures introduced by Options D and E. However, it remains a stepwise and more progressively structured levy rather than a true single-rate ad valorem levy.

3. Concerns with Regional Discounts, Vacant-Land Discounts and Property-Type Surcharges

Prosper does not support Option D. Differences in location, amenity, market demand, accessibility and exposure to risk are already substantially capitalised into unimproved land values. Applying an additional regional discount would therefore risk double-counting these factors and weakening the integrity of the land-value base. It would also shift a greater share of the funding burden onto Greater Sydney landholders through an administratively determined geographic classification, rather than allowing differences in land value to determine liabilities directly.

Prosper also does not support Option E. Surcharges based on property type, such as an additional charge on units, move the system away from neutrality. Landholders with similar land values should generally face similar liabilities, regardless of whether the property contains a house, apartment building or other improvement. A unit surcharge would also penalise denser forms of housing, despite higher-density development generally making more efficient use of well-located land and existing infrastructure. Once the levy incorporates additional classifications, surcharges and exceptions, it becomes more complex, more vulnerable to lobbying and less consistent with the economic rationale for taxing land values.

Prosper also opposes a general discount for vacant land. While vacant properties may place lower immediate demands on some emergency services, a broad discount would reduce the holding cost of undeveloped land, reward land withholding and weaken incentives to bring well-located sites into productive use. It would also require higher charges on developed properties and other landholders. Any exceptional treatment should be narrowly targeted to land that is genuinely incapable of development or productive use, rather than applying generally to vacant land.

The central design principle should be that emergency services are funded from a broad land-value base with as few carve-outs as possible. A broad base allows the required rate to remain low and distributes the burden according to land value rather than property type, location or development status. This is preferable to a complex system of discounts, surcharges and classifications that narrows the base, creates distortions and shifts costs onto other landholders.

4. Hardship Should Be Addressed Through Deferral, Not Exemptions

Prosper recognises that there will be genuine hardship cases. Some households may be asset-rich but income-poor, particularly older owner-occupiers living on fixed incomes. However, this is fundamentally a liquidity problem, not a reason to weaken the levy base.[1]

The Government should therefore avoid broad exemptions or permanent discounts that remove valuable land from the levy base and shift the cost onto other landholders. Instead, NSW should establish a formal deferral mechanism for eligible low-income owner-occupiers.

Under this model, an eligible owner who cannot reasonably meet the annual levy from current income could defer payment. The unpaid liability would be secured through a statutory charge registered against the property, rather than being permanently waived.

The deferred liability should accrue interest at a transparent and non-punitive rate, such as the NSW Government's borrowing rate or another benchmark that compensates the State for the cost of deferral. The liability would become payable when the property is sold, transferred or otherwise disposed of. Where the

[1] See Helm (2019) for previous Prosper Australia analysis on how to manage land tax transitions.

owner remains in the property until death, repayment should be required from the estate following the death of the final eligible owner-occupier, with a reasonable period allowed for the administration of the estate.

This approach would protect households from immediate cashflow pressure while ensuring that the liability is ultimately recovered. It would therefore address genuine hardship without narrowing the land-value base or requiring higher charges on other property owners.

Deferral is preferable to broad pensioner concessions or discounts because it distinguishes between capacity to pay from current income and capacity to pay over time. Discounts permanently reduce liabilities and require higher charges on other landholders, whereas deferral protects households from cashflow pressure while preserving the integrity of the levy base. The Government should therefore distinguish between the tax base, the rate and the timing of payment: the base should remain broad, the rate should be applied consistently, and payment timing should be flexible in genuine hardship cases.

5. Transition Arrangements

Prosper supports a clear and timely transition away from the ESL.

A long phase-in would delay the benefits of reform and retain the distortions of the existing system. It would also require insurers to continue administering the ESL for longer, increasing compliance costs and making the resulting reduction in insurance premiums less transparent. Concerns about insurance renewal timing are real, but manageable. Insurance policies have different commencement and renewal dates, while the replacement levy would apply from a common commencement date. Without careful design, some policyholders could pay an ESL-inclusive premium shortly before becoming liable for the replacement levy.

This does not justify a protracted transition. It requires clear implementation rules and sufficient notice. The Government should announce the commencement date in advance, give insurers time to adjust their pricing and administrative systems, and establish transparent rules for policies that span the transition date. These rules could provide for pro-rata adjustments, credits or refunds where policyholders have already contributed to the ESL for periods after its abolition.

The transition should also avoid creating incentives for policyholders to delay renewing insurance. If households or businesses believe they can reduce their ESL liability by postponing renewal, some may temporarily go uninsured. This risk can be reduced by ensuring that any over-collection is addressed through automatic adjustments, rather than requiring policyholders to time their insurance renewal.

IPART should oversee the removal of the ESL from premiums, the treatment of policies spanning the commencement date, and the provision of any required refunds or credits. With adequate notice, clear rules and effective monitoring, insurance-renewal timing should be treated as a manageable implementation issue rather than as a reason to delay reform.

Conclusion

The reform should be understood as part of a broader shift away from inefficient taxes on transactions, insurance and productive activity, and toward more efficient taxes on land values. Done properly, the replacement of the ESL can improve insurance affordability, strengthen emergency services funding, and move NSW toward a fairer and more economically efficient tax base.