NSW Emergency Services Levy Economic Modelling

A Lateral Economics report to the Insurance Council of Australia

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LateralEconomics

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Overview

Key points

Savings for households, including large savings in disaster-prone regions

Reforming the NSW Emergency Services Levy (ESL) by shifting from a levy on insurance to one on property would mean significant savings for households on average and positive equity implications:

- Removing the ESL would **save the average insured household $308** per year.
- After adding the replacement property levy ($253), the **average household is $55 ahead**.
- Insured households in **high-risk regions** (e.g., Northern NSW) with home and contents insurance save **over $740** on insurance and **over $480 and up to $565 net**.

This analysis was largely completed prior to the release of NSW Treasury's options paper containing results based on a confidential matched dataset comprising property and insurance data. Nonetheless, the results presented in this report are consistent with NSW Treasury's analysis, and indeed our estimated average household saving of $55 is of a similar magnitude to NSW Treasury's estimate of $65.

Cheaper insurance means insurance coverage increases

Removing ESL will reduce prices and increase uptake. Expected insurance coverage increases are:

- **Home insurance:** +2.7%
- **Contents insurance:** +15%

This means:

- **+82,000 extra households** for building insurance
- **+320,000 extra households** for contents insurance

Additional economic and fiscal benefits from greater coverage are large

In addition to savings on existing policies, households and businesses gain significant benefits as insurance policies are now cheaper and coverage increases. For one, they get the peace-of-mind of benefit from knowing they are adequately insured. Greater coverage also results in positive flow-on impacts elsewhere in the economy, as households and businesses have greater confidence to engage in various activities–for example, renovating properties.

Our modelling finds ESL reform:

- Generates **$317–460 million** in net welfare gains each year. Because insurance is cheaper, more households and businesses purchase it which generates value for them.
- Equivalent to **$97–$141 per NSW household**.

Finally, there will be NSW budget savings as there will be fewer uninsured or under-insured households requiring government assistance for repairs. In particular, the NSW Government Disaster Relief Grants, aimed at low-income and under-insured households affected by natural disasters, paid out around $75 million in support from January 2022 to August 2025.[1]

Case studies of benefits to specific cohorts

To illustrate the practical impact of reform, we modelled the position of several representative households and businesses under NSW Treasury's Option C, comparing their current ESL payments under typical insurance policies with what they would pay under the new levy. These examples are indicative rather than precise estimates of average impacts, and are based on realistic values drawn from desktop research and industry consultation. They show that the cohorts most exposed to the current system stand to gain the most:

- **Households in disaster-prone regional areas** (e.g. Lismore), where premiums run well above the state average, could save around **$565 a year**, rising to **$600** with a 20% regional discount.
- **Pensioner households** with home, contents and motor vehicle cover could save around **$125 a year**, rising to **$185** with a 20% discount.
- **Households in strata properties**, that are disproportionately renters and lower-income, come out ahead by around **$91–$136 a year**, though a $50 unit surcharge (as proposed under Option E) would narrow this to around **$41**.
- **Small and medium businesses** see the largest savings, reflecting the highly progressive structure of the charges. Representative examples range from around **$105 a year** for a small bakery to **$8,850** for a restaurant and over **$21,000** for a small livestock farm, with most other small businesses saving between roughly **$300 and $2,000**.

Together, the case studies underline that reform is most beneficial for those currently bearing the heaviest burden under the insurance-based ESL—households in high-risk regions, those on lower incomes, and small businesses.

[1] https://www.nsw.gov.au/grants-and-funding/disaster-relief-grants

The Case for Reform

The NSW ESL is the principal funding source for Fire and Rescue NSW, the NSW Rural Fire Service, and the State Emergency Service. Around three-quarters or $1.4 billion of the $1.9 billion currently required each year is raised through levies on insurance premiums. This structure places a disproportionate burden on insured households and businesses, inflating premiums by an estimated 18% for households and 34% for businesses.[2]

The ESL penalises those who act responsibly by maintaining cover, while others who remain uninsured still benefit from the public good of emergency services without contributing to their cost.

The ESL has an outsized impact on insurance costs because it is passed on to policyholders as a surcharge imposed on premiums, which in turn inflates the base on which GST and stamp duty are calculated. From a tax policy perspective, this compounding effect is difficult to justify, as the ESL is a revenue-raising charge rather than a value-adding service. While including it in the GST and stamp duty base may be administratively convenient, it violates the principle that the GST is a value added tax and, worse still, becomes a tax being levied on a tax.

This tax on premiums discourages uptake of crucial insurance, fuels increasing under-insurance and undermines community resilience, especially in disaster-prone vulnerable areas.

As premiums rise, more households and businesses reduce their cover or drop insurance entirely. This fuels a self-reinforcing affordability spiral: higher premiums drive lower uptake, which in turn drives premiums higher still. Compared with other states, NSW already has significantly higher rates of underinsurance, and the inadequacies of the ESL as it's currently designed are a key driver.[3] With climate change and population growth increasing demand for emergency services, the flaws in the current funding model have been growing and will continue to intensify. A reform of the ESL would promote equity and reduce the current economic distortions negatively impacting some of the most vulnerable communities.

The NSW Government has recognised this and committed to establishing a fairer, more broadly-based system that spreads costs more fully across all property owners.

Our modelling shows that removing ESL on insurance would save the average insured household around $308 on their insurance bills, with positive implications for affordability and

[2] NSW Government (2024) Reforming the emergency services funding system: Consultation paper, 10 April 2024, p. 20.
[3] Insurance Council of Australia (2023) A stronger NSW: Policy recommendations for the next NSW Government, p. 6.

insurance uptake. If the NSW Government were to replace the lost revenue through a broad-based property levy, then after allowing for an average $253 levy on property to replace the current insurance-based ESL, the average insured household would be ahead $55 ahead per year.

Replacing ESL with a broad-based property tax would be consistent with well-established taxation principles. It would deliver equity, efficiency, transparency, and sustainability benefits (Table ES-1).

Table ES-1. Assessment Matrix: Tax Principles Applied to ESL Reform

Principle	Current ESL (Insurance-based levy)	Proposed Property Levy
Equity (fairness)	Narrow base—only insured households and businesses contribute; regressive impact on low-income groups.	Broad base—all property owners contribute; costs can be linked to property value, improving vertical equity.
Efficiency	Distorts insurance markets by raising premiums and encouraging underinsurance.	Less distortionary; property is immobile and does not discourage socially desirable insurance coverage.
Simplicity/Transparency	Opaque—hidden in premiums and compounded by GST and stamp duty; difficult for consumers to identify true cost.	Clear, visible charge on property rates notices; easier for taxpayers to understand and government to administer.
Sustainability/Adequacy	Volatile base—revenue depends on the level of insurance uptake, which declines as premiums rise.	Stable base—property values and ownership provide consistent revenue to meet rising emergency service costs.

Note: Policy consistency is another element, but we have subsumed it under efficiency and simplicity.

Modelling Results

Key findings

The major findings from the modelling include:

- By reducing the cost of insurance and increasing coverage, ESL reform will result in substantial economic welfare gains averaging between $97 to $141 per NSW household;
- shifting the levy from insurance to property reduces the adverse economic impacts of the ESL by nearly 80%; and

- Insured households in high risk areas, such as those in Northern NSW, could save over $460 on their insurance bills and, in net terms, over $200 annually after allowing for the higher rates they would pay to replace the ESL revenue.

That is, ESL reform is beneficial from both efficiency and equity perspectives as set out below.

Distributional effects

In the first instance, removing the ESL from insurance premiums would deliver direct benefits to households and businesses. On a direct cost basis, the ESL involves insured households paying on average $308 more per year (taking into account the cascading effect of NSW stamp duty and Commonwealth GST charged on insurance). If the same revenue were raised from a property tax on unimproved land values, the average contribution per household would be around $253, producing an average saving of about $55 per household (Table ES-2). (Note, being levied on property values rather than a sold product, this would not attract further stamp duty or GST). On our current calculations, businesses would save around $70 per year on average. Overall, the reform therefore improves both efficiency and fairness—reducing insurance costs, broadening participation, and delivering a substantial net benefit to the community.

However, as Table ES-2 below illustrates, while there will be many beneficiaries of the change, with the majority of households, at least 2.1 million, better off, households with little or no insurance will pay more. Up to 147,000 households would start paying ESL for the first time and possibly around one-third of households (around 1 million), could be required to contribute slightly more than they do under the current model (under $10 annually; see section 4.2.2). However, all 3.3 million NSW households will now benefit from either significantly lower insurance premiums or the capacity to increase their insurance coverage. In the next section we estimate additional coverage of over 80,000 additional households obtaining home insurance and over 300,000 additional households obtaining contents insurance.

Table ES-2: Impact on property owners of Transition from ESL to Property Tax, $ per group member

Group	ESL (post-tax)	Property Tax	Saving/(Cost)
Households			
Average	308	253	55
Home insurance only	244	253	-9
Home and contents insurance	281	253	28
Motor vehicle insurance only	28	253	-226
Home & motor vehicle	272	253	19
Home & contents & 1 motor vehicle	309	253	55
No insurance	0	253	-253
Businesses			
Average	1,619	1,549	70
Property insurance only	1,564	1,549	15
Motor vehicle insurance only	55	1,549	-1,495
No insurance	0	1,549	-1,549

The ultimate savings may be larger than those reported in Table ES-2 given several major employers self-insure their properties, and would now come into the ESL tax base from which they have been absent. Lack of data prevents us from quantifying this impact.

While detailed data is needed to fully understand the distributional effects, preliminary analysis indicates that some households and businesses–i.e., those self-insured, uninsured or under-insured relative to the average–will face moderately higher costs under the policy change. However, the majority are expected to benefit from ESL reform, and the broader community will gain from the additional economic advantages it brings. These benefits, discussed below, highlight the positive impact of the reform.

We also examined how progressive the proposed changes are - whether they favour those on higher or lower levels of income and wealth - and some other distributional effects.

The reform would also help address geographic inequities. Households in disaster-prone regions such as the Northern Rivers—where insurance premiums can be 65% or more above the state average—would see much greater savings than typical households. This would save households in disaster-prone regions at least $460 by removing the current ESL on insurance, for a net gain of at least $200 annually, based on the estimates in Table ES-1 and assuming they pay 65% or more above the state average for insurance. Likewise, those living in apartments and townhouses—who are disproportionately lower-income renters—would benefit

substantially relative to owners of high-value free-standing homes. This is illustrated in the stylised examples in Table ES-3.

Table ES-3. Impact of switch from insurance-based to property-based ESL by property type

		House	Townhouse	Apartment	Average	Notes
A	Property value	$857,300	$857,300	$857,300	$857,300	Cotality estimate of median property price in Australia at the end of September 2025
B	Land value as % of value	60%	40%	25%	50%	Assumptions based on desktop research
C	Land value	$514,380	$342,920	$214,325	$428,650	C = A x B
D	ESL, post-tax (Home & contents)	$281	$281	$281	$281	Consistent with Table 9
E	Revenue-neutral property tax	$304	$203	$127	$253	Average consistent with Table 9 above. The values for houses, townhouses and apartments are calculated using the ratios of the land to value ratios of the different housing types to the average (i.e. 60%/50% x $253 = $304 for houses)
F	Saving	-$23	$78	$154	$28	F = D - E

Note: We have assumed that the value of the property is the same across the different classes. This is not a realistic assumption, but is made to allow the table to identify the impact of the land-to-value ratio on the savings from ESL reform.

Improvements in insurance coverage

By removing a significant impost on insurance premiums, ESL reform will reduce the cost and increase the uptake of insurance, while also reducing calls on state budgets to assist the under, or uninsured. The impact can be estimated using the price elasticity of demand - a measure of the responsiveness of demand to a change in the price. The price elasticity of demand for insurance in Australia has been estimated as -0.56, meaning a 1% increase in the price of insurance reduces demand by 0.56%.[4] This is a price elasticity for a broad range of insurance products, however. While numerous studies purport to estimate a single elasticity for home and for contents insurance there are good reasons to expect them to be subtly different. The over 95% market penetration of home insurance suggests a far lower price elasticity of demand for home than for contents insurance, where market penetration is under 65% (Table ES-3).[5] In a 2008 report to the ICA, a price elasticity of demand for home insurance was estimated to be as

[4] Nassios, J. and Giesecke, J. (2025) "Inefficient at any level: a comparative efficiency argument for elimination of property transfer duties and insurance taxes", Applied Economics, Published online: 18 Jul 2025, https://doi.org/10.1080/00036846.2025.2507977.

[5] This insurance penetration estimate relates to the coverage of properties by, at a minimum, building insurance and is from NSW Government (2024) Reforming the emergency services funding system, Consultation Paper, p. 9 (Table 3).

low as -0.15 with the elasticity for contents insurance being estimated to be in the range -0.74 to -0.94 (i.e. with a midpoint of -0.84).[6] Using these elasticities, an 18% cost reduction would increase the demand for home insurance by 2.7% and for contents insurance by 15%.

We lack the detailed data to translate these increases in demand into changes in coverage rates within the various classes of insurance customer. That said, our calculations suggest they could go a long way to reducing the rate of under-insurance in NSW (Table ES-4). The price reduction would see demand increase both extensively, as previously uninsured households or businesses gain coverage, and intensively, as already insured households or businesses increase their coverage levels.

Table ES-4. NSW households without insurance

Households	Building	Contents
Owner without a mortgage	3.9%	15.6%
Owner with a mortgage	4.7%	16.7%
Total homeowners	4.5%	16.0%
Renter / Other tenure type		75.0%
Total	**4.5%**	**35.4%**
*Total households without insurance (2023-24)**	*146,980*	*1,156,242*

Source: NSW Government (2024) Reforming the emergency services funding system: Consultation paper, 10 April 2024, p. 9. *Based on an estimated 3.267 million households in NSW in 2023-24 estimated using ABS population data and 2021 Census data (for average household occupancy).

We expect ESL reform could substantially increase the number of NSW households with contents insurance and to a lesser extent the number with building insurance. If demand for home insurance increased by 2.7% the rate of coverage of households would increase from around 95.5% to 98%, ensuring an additional 82,000 NSW households are covered.

If demand for contents insurance did increase by 15%, the rate of coverage of households would increase from around 65% to 75%, meaning approximately 320,000 additional NSW households, many of them renters, would take up contents insurance.

Economic welfare gains

ESL is one of the more distortionary and inequitable revenue instruments in the NSW tax system. While the levy transfers around $1.4 billion a year from policyholders to emergency services, it also imposes a further economic cost of around $½ billion in largely invisible economic costs as households and firms reduce insurance or forgo it altogether. To an extent,

[6] Tooth, R. (2008) An Analysis of the Demand for House and Contents Insurance in Australia, report prepared for the Insurance Council of Australia, p. 6.

these costs are 'socialised' and borne by government in post-disaster assistance provided to uninsured or under-insured households. Because a levy on all property distorts behaviour far less, moving from insurance to a property-based ESL would almost eliminate this hidden cost. Our modelling suggests that the switch would cut the 'excess burden', the economic costs of the distortions, by around 79%, generating economic welfare gains of $317–460 million per year, equivalent to $97–141 per NSW household (Table ES-5). ESL on insurance premiums imposes an excess burden or deadweight costs because it is levied on a productive activity - insurance which is a principal means by which individuals and businesses do business in the presence of risks that are too large for them to bear. This contributes to both prudence and economic efficiency and, accordingly, discouraging it diminishes both.

Table ES-5. Economic loss from the switch from ESL to a broad-based property tax per household

	Basis of calculation	
	Average excess burden	Marginal excess burden
Aggregate welfare impacts		
Welfare loss from ESL ($ million)	408	581
Welfare loss from equivalent property tax ($ million)	91	122
Difference	317	460
Per household welfare impacts		
Welfare loss from ESL ($/household)	125	178
Welfare loss from equivalent property tax ($/household)	28	37
Difference ($/household)	97	141

The excess burden estimates in Table ES-4 are based on the marginal excess burden for a broad range of insurance taxes, and not specifically for ESL. Given ESL is levied largely on real property insurance premiums, and there are good reasons for believing that the price elasticity of demand for home insurance (separate from contents insurance) is very low, the marginal excess burden estimate we use may overstate the aggregate impact. We are confident that there will be an efficiency gain from ESL reform, but the magnitude of that gain cannot be precisely estimated based on existing findings in the economic literature.

Policy Options

LE considered various options for replacing the current ESL with a levy on property, with the leading candidates being a tax on unimproved land values (like council rates) and a levy on

capital improved values. A levy on capital improved values offers the broadest tax base and is also most aligned with the 'beneficiary pays' principle, as in most cases the damage wrought by catastrophes is more correlated with the capital-improved than with the unimproved value of land. However, it also imposes efficiency costs, discouraging capital improvements at the margin, and would be administratively complex, requiring the revaluation of properties and the development of a new system in NSW. Given NSW's existing land tax framework is based on unimproved land values it provides the simplest and most practical option.

To generate the $1.5 billion needed to replace the current ESL and associated stamp duty revenues (see Section 4.2.1 and Table 8), municipal rates would be adjusted through a property-based levy set at around 0.06% of unimproved land value (ULV) (Table ES-6). If businesses were to continue paying a larger share, as they do under the current ESL, a tiered rate structure could be applied, with non-residential land charged at approximately 0.12% and residential land at around 0.04%.

Table ES-6. Required ad valorem levy rates on unimproved land values to replace ESL

	Residential	Non-Residential	Total
Land value (2022-23), $b	2,104.73	594.1	2,698.81
ESL revenue to replace (2023-24), $m	755.7	633.3	1,389.0
Stamp duty revenue to replace (2023-24), $m	72.1	61.1	133.2
Total revenue to replace (2023-24), $m	827.8	694.4	1,522.2
Required average ad valorem rate	0.04%	0.12%	0.06%

Note: In calculating the ESL revenue to be replaced by levies on residential and non-residential land, we have calculated the figures as follows. ESL revenue related to the residential category comprises that levied on real residential property and contents insurance and personal motor vehicle insurance. ESL revenue related to the non-residential category comprises that levied on non-residential real property and contents insurance and commercial motor vehicle insurance.

Assessment of NSW Treasury's specific reform options

Since our original analysis, the reform has moved from the establishment of principles to design. NSW Treasury's options paper sets out five specific levy models (Options A to E) to replace the insurance-based ESL, prepared to assist the Legislative Assembly Select Committee. We have reviewed these against the Government's own design principles.

All five share the features our modelling supports: a revenue-neutral structure of tiered fixed charges levied on unimproved land values, with the levy severed from insurance premiums. All five options switch the revenue raising burden from insurance to the land-value base. For this reason all five deliver broadly the same economic benefit. The options differ mainly in how they trade off equity against simplicity:

- Options A and B apply four tiers, with B steepening the charge on higher-value properties;
- Option C adds a lower tier funded by a higher top tier, making it the most progressive of the five;
- Option D adds regional discounts of 20–50%, targeting geographic equity; and
- Option E surcharges units relative to houses.

On efficiency, sustainability and cost recovery the options are effectively equivalent. The meaningful choice is between equity and simplicity, and we weigh equity more highly. All five are already far simpler and more transparent than the current ESL, so we suggest simplicity be treated as a feasibility constraint–that is, the more equitable option should be chosen unless the additional complexity it introduces threatens timely, low-cost implementation.

On that basis we favour Option C, subject to the recommended improvements discussed in our recommendations section below.

Conclusions

The current insurance-based ESL is an inefficient and unfair tax which disproportionately burdens insured households and businesses, inflates premiums, and contributes to a self-reinforcing spiral of underinsurance for communities in NSW. This requires the NSW Government to provide greater financial assistance to uninsured households and businesses.

This is particularly pronounced in high risk and lower income areas, impacting the most vulnerable communities. By contrast, a property levy is more broadly based and more efficient as a tax base. It is fairer because it aligns contributions more closely with the universal benefits of emergency services and with capacity to pay.

Lateral Economics' modelling shows how shifting the levy from insurance to property reduces by nearly 80% the adverse economic impacts of the ESL. Removing the ESL on insurance would save the average household around $308 per year for insured households with positive implications for affordability and insurance uptake. This would be mostly offset by an increase in property tax.

Furthermore, because raising the ESL through insurance is so inefficient, the switch from an insurance to a property based levy would generate benefits in the NSW economy of around $140 per household ($460 million annually across the state). Benefits would flow disproportionately to households in areas suffering high-insurance premiums and those with lower wealth and incomes.

The significant economic benefits of ESL reform may not be immediately obvious to those currently benefiting from the existing arrangements and who may face higher costs under a fairer, broader, and more efficient tax base. Further analysis would help clarify the distributional impacts.

These findings confirm that reforming the ESL is fiscally responsible, economically, and socially beneficial. The current system undermines affordability, distorts insurance markets, and weakens community resilience; a properly designed and supported property-based levy addresses these shortcomings and strengthens the long-term sustainability of emergency services funding.

Recommended Next Steps for ESL Reform

NSW Treasury's options paper is a good start toward ESL reform, but further analysis would support better option design, particularly regarding:

- the relationship between unimproved property value and demands on emergency services; and
- how households and businesses are impacted by their level of insurance coverage, using NSW Treasury's matched dataset, which would help the public better understand the composition of the households that gain or lose (approximately 55% vs 45%) from the policy change.

If the options presented in the report are the only options available, option C would be preferred given its more favourable equity ranking. Its six tiers track capacity to pay most closely while requiring no new data infrastructure, so the extent to which it adds complexity is modest. The Treasury could refine it further by considering a surcharge for units (given their lower land value per dwelling relative to houses) on benefit-principle grounds and steeper progressivity for higher-value properties.

Further, we recommend that NSW Treasury adopt either additional tiers to provide greater progressivity or an *ad valorem* charge for the top tier. This will:

- improve vertical equity;
- raise significant additional revenue from those owning the most valuable properties; and, as a consequence
- fund lower levy rates for other tiers increasing the number of net 'winners' from the changes and reducing the number of losers.

If it is regarded as more publicly acceptable, adding additional tiers rather than an *ad valorem* levy above the top tier is probably slightly preferred, given how marginal the equity benefits of the pure *ad valorem* approach would be.

Additionally, NSW Treasury should recover ESL currently paid by households on their motor vehicle policies through the levies on residential rather than non-residential properties, as this is a peculiar deviation from what is otherwise a revenue-neutral policy reform, and one in which the levy rates on non-residential property are already higher than on residential properties.

Regarding the regional discounts in Option D, we note that regional areas will benefit significantly already from the replacement of an insurance-based ESL, given regional insurance bills can be much higher, particularly in areas at higher risk of natural disasters, as discussed in this report.

While our analysis reveals the ESL reform delivers net benefits to households and businesses, the NSW Treasury may wish to consider additional measures to improve the equity of the reform, including concessions for financially vulnerable households, small businesses or farms (although our analysis reveals the latter two groups will already benefit significantly from NSW Treasury's option C).

We note that NSW Treasury rightly characterises the move from the insurance-based ESL to a property-based levy as a complex transition requiring sufficient lead time for insurers and property owners and a sequencing that minimises disruption to the insurance market, including avoiding situations where policyholders face the ESL and the replacement levy in close succession, or are tempted to let cover lapse. We share that view, and would encourage the Committee to ensure the chosen transition path is announced well in advance and, whichever levy option is adopted it is accompanied by clear public communication.

Finally, public communication and stakeholder engagement will be decisive. The government should launch a transparent and sustained campaign that explains the reform as a measure that will benefit the majority of households and businesses, and as a fairness measure rather than a new burden. Engaging with local government, insurers, consumer advocates, and community groups will help refine implementation details and build public support. By coupling strong policy design with clear communication and accountability, NSW can achieve an emergency services funding model that is fairer, more efficient, and sustainable.

1. Introduction

1.1 Overview of the issues

The Emergency Services Levy (ESL) in NSW provides essential funding for fire, rescue, and emergency services. However, under the current system, the burden of funding these services falls disproportionately on insured households and businesses, rather than being shared across the broader community that benefits from them. Furthermore, some economic losses are socialised as the NSW Government provides financial assistance to uninsured and under-insured households after natural disasters.

As the impacts of climate change intensify, the demand for emergency services is rising. More frequent and severe natural disasters, as well as additions to the built environment, are driving higher funding requirements, which in turn are increasing the ESL. This structure directly inflates insurance costs, pushing premiums higher and making coverage progressively less affordable for many households and businesses, particularly those in more disaster-prone regions.

These additional costs are compounding pressures on family budgets and business operations. Surveys conducted by Business NSW highlight that rising insurance costs rank among the top concerns for local enterprises. At the household level, unaffordable premiums contribute to higher rates of non-insurance in NSW compared to other states, leaving more households exposed and financially vulnerable in the event of disaster.[7]

The need for well-funded, reliable emergency services is clear, especially in the event of climate-related events becoming more frequent and pronounced.[8] What is equally clear is the way in which the rising costs of the eventualities that need to be insured against highlight the need for a funding model that will minimise the extent to which rising premiums will drive exit from the insurance market. This outcome would threaten a self-reinforcing spiral in which further premium increases become necessary, driving exit from the market and widening the coverage gap that the NSW Government would be liable to fund, and so on.

Commendably, the NSW Government has acknowledged these challenges and committed to reforming emergency services funding. Its stated aim is to establish a fairer, broader-based system that spreads the costs of protection across all property owners, while ensuring the resilience and capability of emergency services into the future.[9]

[7] Tooth, R. (2019) The impact of an increase in the Emergency Services Levy, Sapere, 14 May 2019
[8] Keating, A. and Rickards, L. (2021) Implications of Climate Change for Emergency Services Operations - Insights from The Literature, Bushfire and Natural Hazards CRC, Monash University
[9] NSW Government (2024) Reforming the emergency services funding system, Consultation Paper

1.2 Purpose and Scope of this Report

The Insurance Council of Australia commissioned Lateral Economics (LE) to undertake economic analysis to demonstrate the savings potential for households and commercial property owners resulting from ESL reform. Specifically, the Insurance Council has asked LE to quantify per-premium savings and evaluate the economic implications (including financial and budget impacts) of transitioning to a broad-based property tax.

Additionally, this report considers alternative revenue sources or taxation methods to ensure that the reform remains as close as practicable to budget neutral. In its 2024 consultation paper, the NSW Government identified four alternative bases for the levy. LE has considered alternative property-based taxation in this analysis, as well as the specific reform options proposed by NSW Treasury in its 2026 options paper.

2. Background

2.1 Current ESL Funding Model

The current NSW Emergency Services Levy (ESL) is imposed predominantly on certain kinds of insurance premiums under the *Emergency Services Levy Act 2017*. Each year, the NSW Treasurer sets a funding target for the state's three emergency service agencies: Fire and Rescue NSW, the NSW Rural Fire Service, and the State Emergency Service. Insurers are required to meet this target in proportion to their share of premiums written across certain insurance classes. The levy is then passed on to policyholders as a surcharge imposed on premiums, which in turn inflates the base on which GST and stamp duty are calculated. In effect, insured households and businesses bear the direct cost of supporting frontline emergency services.

The money raised against insurance premiums accounts for around 74 per cent of the total raised under the act.[10] Local governments contribute approximately 12 per cent, while the NSW Government provides the balance—about 14 per cent—through general revenue and a portion of insurance stamp duty receipts. In 2023–24, total funding requirements were close to $1.9 billion, with insurers accounting for roughly $1.4 billion of that figure. Forward budget estimates show levy collections remaining around $1.3-1.5 billion, despite commitments to reform the funding framework.[11] The heavy reliance on insured policyholders as the principal funding base highlights a structural imbalance in the current model, particularly when compared with more broadly based property levies applied in other jurisdictions.

[10] NSW Government (2024) Reforming the emergency services funding system, p.7
[11] NSW Government (2025) 2025-26 Budget Paper No.01 Budget Statement, p. 5-5.

Table 1 below summarises the approach to funding emergency services in Australian jurisdictions.

Table 1. Approaches to funding emergency services across Australian jurisdictions

Jurisdiction	Funding mechanism	How it's collected	Notes / scope
NSW	Emergency Services Levy	Charged, in part, on property and some other general insurance	Government intends shifting to a property-based model.
Victoria	Emergency Services and Volunteers Fund	Property-based charge on council rates notices (replaced FSP), comprising a fixed charge and an ad *valorem* charge applied to the capital improved value	Expands support beyond fire services to VICSES, Triple Zero Victoria, and others.
Queensland	Emergency Management Levy	Property-based charge on council rates notices	Principal funding source for Queensland Fire Department and Rural Fire Service.
SA	Emergency Services Levy	Revenue SA Levy mostly on fixed property	Paid into the Community Emergency Services Fund for MFS, CFS, SES, etc.
WA	Emergency Services Levy	Property-based charge collected by local governments via rates	DFES main funding source for fire and emergency services.
Tasmania	Fire Service Contribution	Property-based charge included on council rates	Councils collect on behalf of the State Fire Commission; settings under review.
ACT	Police, Fire and Emergency Services Levy	Property-based charge on all rateable properties	Levy amounts set by determination each year. Appears on rates notices.
NT	General government funding	No dedicated levy on insurance or property	NT funds fire service from the consolidated fund

Sources: ACT Revenue Office (2025) Police, Fire and Emergency Services Levy; ACT Department of Fire and Emergency Services (2025) Emergency Services Levy; NSW Government (2025) Emergency Services Levy; Queensland Fire Department. (2025) Emergency Management Levy; Queensland Government (2025) Emergency Management Levy; RevenueSA (2025) Emergency Services Levy); State Revenue Office Victoria (2025) Emergency Services and Volunteers Fund; Tasmania Fire Service (2025) Funding the Fire Service; Tasmanian Government (2021) Fire Service Funding Review: Issues Paper.

As the above table highlights, other jurisdictions fund emergency services mainly via property-based charges. In some cases, this is done directly by state revenue agencies; in others, it is via local government charges on rateable properties. NSW and the NT are exceptions. NT is the only jurisdiction that does not have a specific levy; it funds its emergency services from its consolidated fund.

The incidence of the NSW ESL is both more narrow and regressive than is consistent with the principles of good public policy. It is inefficient (harming economic activity), inequitable (treating people in similar situations differently) and is relatively regressive (with little correspondence between capacity to pay and the amount paid). The levy falls only on insured households and businesses, despite emergency services providing benefits across the entire community. The

impact is material: the ESL adds around 18% to average residential premiums and around 34% to commercial property premiums, inclusive of the compounding effects from GST and stamp duty.[12] This reduces affordability, contributes to underinsurance, and erodes the risk pool as households and businesses drop or reduce cover. As insurance uptake declines, costs shift onto a shrinking insured base, amplifying premium pressure and creating an affordability spiral of rising costs and declining coverage and community resilience.

Table 2 shows the categories of insurance to which ESL applies. The table details the elements that go into calculating each insurer's contribution to ESL. This is a top-down calculation that sets the total contribution each insurer is to make to meet the gazetted contribution target amount of ESL each year, and it is up to each insurer to determine the way they will raise the required funds (i.e. the rates they apply to each premium) for the ESL.[13] Table 2 presents the data for all insurers in NSW for 2023-24, but the same calculations are made for each individual insurer. First, take the premium revenue for each category (column 2) and multiply it by the weighting factor labelled 'Proportion of industry premiums relevant to contribution' (column 3). Then add up these amounts to get the new total 'Amount of premiums subject to ESL' (column 4). Each insurer performs this calculation and their share of the total in column 4 is the amount of ESL they need to collect from their customers. To illustrate, assume Insurer A multiplies its premium revenues in the different categories by the weighting factors and estimates its premiums subject to ESL amount to $990.3 million out of the total $4,951.4 million, a 20% share. Then Insurer A is liable to pay 20% of the gazetted ESL amount for the particular year–i.e. it would pay 20% (around $279 million) of the gazetted contributed target of $1,396 million in 2025-26.

To make the process clearer, the calculation can be expressed as follows:

Step 1: Calculate weighted premiums subject to ESL

$P_i = \Sigma_k (PremiumRevenue_{ik} \times WeightingFactor_k)$

where:

- P_i = total premiums subject to ESL for insurer i;
- $PremiumRevenue_{ik}$ = premium revenue for insurer i in category k;
- $WeightingFactor_k$ = the proportion of industry premiums relevant to contribution for category k.

[12] NSW Government (2024) Reforming the emergency services funding system: Consultation paper, 10 April 2024, p. 20. The 18% and 34% estimates are the average impacts on residential and commercial property insurance premiums, respectively, over 2017-18 to 2022-23.

[13] For example, Chubb Insurance notes: "The NSW Government does not prescribe any set percentage or rates to be collected for ESL. It is for insurers to calculate and set ESL rates for different classes of policies"; https://www.chubb.com/au-en/customer-service/nsw-emergency-services-levy.html

Step 2: Apportion the total industry contribution

$ESL_i = (P_i / \Sigma P_i) \times TargetAmount$

where:

- ESL_i = the total ESL contribution for insurer i;
- ΣP_i = total weighted premiums across all insurers;
- TargetAmount = the total ESL amount to be raised for that year (as gazetted).

Example

If Insurer A multiplies its premium revenues in the different categories by the weighting factors and estimates its total weighted premiums at P_a = $990.3 million out of a total industry base of $4,951.4 million, its share is 20%. The insurer is therefore liable to contribute:

$ESL_a = 0.20 \times 1{,}396m = \$279.2$ million.

This presentation highlights the underlying proportionality of the ESL system and makes clear that each insurer's contribution depends both on its premium mix and its overall share of the weighted total of premiums over the whole industry.

Table 2. Insurance items and contribution factor for NSW ESL

ESL Insurance Item	Premium Revenue ($ million)	Proportion of industry premiums relevant to contribution (i.e. weighting factor)	Amount of premiums subject to ESL ($ million)
Item 1. Any insurance of property including consequential loss but not including any insurance of a class specified elsewhere in the Schedule.	2,760.9	80%	2,208.7
Item 2. Houseowners and householders, however designated (buildings or contents or both).	5,120.9	50%	2,560.4
Item 3. Personal combined on personal jewellery and clothing, personal effects and works of art.	117.3	10%	11.7
Item 4. Motor vehicle and motorcycle.	6,730.8	2%	168.3
Item 5. Marine and baggage – any insurance confined to maritime perils or confined to risks involving transportation on land or in the air, including storage incidental to transportation by sea, land or air, but not including static risks* (which are to be declared under Item 1).	117.1	1%	1.2
Item 6(a). Combined fire and hail on growing crops.	106.2	1%	1.1
Item 6(b). Livestock	8.5	1%	0.1
Item 7. Aviation hull	22.5	0%	0.0
Item 8(a). Loss by theft	224.2	0%	0.0
Item 8(b). Plate glass	14.1	0%	0.0
Item 8(c). Machinery – confined to mechanical breakdown and/or consequential loss arising from mechanical breakdown.	78.2	0%	0.0
Item 8(d). Explosion or collapse of boiler and pressure vessels – confined to damage other than by fire.	1.0	0%	0.0
Item 8(e). Inherent or latent defects – confined to damage and/or consequential loss arising out of defective design, defective workmanship or defective materials but excluding any damage or consequential loss from fire.	19.7	0%	0.0
Total	**15,321.4**		**4,951.4**

Source: Emergency services levy | Revenue NSW (https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/emergency-services-levy).

The insurance items to which ESL applies relate to buildings and other physical property such as home contents or motor vehicles and do not cover all insurance categories as defined by

APRA's Prudential Standard.[14] As noted above, although individual insurance companies remit the required amount to NSW Revenue, they are not required to charge the levy to their customers in a way that is strictly proportional to the contribution each category of insurance makes to the insurer's ESL liability.

That said, it appears that insurers are passing on the ESL liability in a way that is broadly proportional to each category's contribution to the total liability. NSW Budget papers reported that, in 2023-24, almost half of all ESL was passed on to insurance premiums associated with residential property, with around 44% passed on to non-residential property insurance premiums, and around 6% on motor vehicle insurance premiums.[15] These reported contributions are compared with the contributions of these categories to the total ESL liability in Table 3. This analysis reveals a rough correspondence between relative contributions to the ESL liability and contributions to the ESL by category, with relatively small discrepancies for residential and non-residential property insurance, and a more significant discrepancy for motor vehicle insurance. Households and to a lesser extent businesses are paying less in ESL on property insurance than their contribution to the insurers' ESL liability would imply, because more of the ESL revenue is raised through levies on motor vehicle insurance than its contribution to the ESL liability of insurers would suggest. That is, the ESL on motor vehicle insurance is contributing 76% more than its contribution to the ESL liability would imply.

[14] Prudential Standard GPS 001. For example, it does not include insurance for: consumer credit; professional indemnity; employers' liability / workers' compensation / domestic workers' compensation; public liability / product liability component (generally excluded unless tied to property damage component covered under property policies); pure liability insurance (without property damage) in other classes (for example legal expense, directors and officers liability, etc).; parts of "Other Accident" covering personal injury, sickness, etc, that do not include property damage; some parts of motor insurance such as the third party personal injury component; any insurance purely covering risks not involving damage to property. Furthermore, as can be seen from Table 2, effectively it does not even include several property insurance categories as items 7 to 8 do not contribute to an insurer's ESL liability owing to 0% weighting factors. Historically, these items may have contributed to the ESL liability but have subsequently effectively been excluded from the ESL liability calculation, but we have been unable to determine whether this is the case.

[15] NSW Treasury (2025) 2025-2026 Budget Statement, p5-8, NSW Revenue (2025) Emergency Services Levy, Lateral Economics estimates.

Table 3. ESL contributions by category–estimated versus implied by contribution to ESL liability, 2023-24

Item by category	Amount of premium subject to contribution, $m	Share of total ESL liability	Share of ESL actually passed on by category	Estimated ESL revenue by category, $m	ESL revenue if levied proportional to liability contribution*, $m	Variation, $m
Residential						
Item 2. Houseowners and householders, however designated (buildings or contents or both).	2,560.4	51.7%				
Item 3. Personal combined on personal jewellery and clothing, personal effects and works of art.	11.7	0.2%				
Sub-total - Residential	**2,572.2**	***51.9%***	***50%***	***694.5***	***721.6***	***-27.1***
Non-residential		0.0%				
Item 1. Any insurance of property including consequential loss but not including any insurance of a class specified elsewhere in the Schedule.	2,208.7	44.6%				
Item 5. Marine and baggage – any insurance confined to maritime perils or confined to risks involving transportation on land or in the air, including storage incidental to transportation by sea, land or air, but not including static risks* (which are to be declared under Item 1).	1.2	0.0%				
Item 6(a). Combined fire and hail on growing crops.	1.1	0.0%				
Item 6(b). Livestock	0.1	0.0%				
Sub-total - Non-residential	***2,211.0***	***44.7%***	***44%***	***611.2***	***620.2***	***-9.1***
Motor vehicle		0.0%				
Item 4. Motor vehicle and motorcycle.	168.3	3.4%				
Sub-total - Motor vehicle	***168.3***	***3.4%***	***6%***	***83.3***	***47.2***	***36.1***
Total	**4,951.4**	**100.0%**	**100.0%**	**1,389**	**1,389**	**0**

Source: Lateral Economics calculations based on Emergency services levy | Revenue NSW and NSW Government 2025-26 Budget Paper No. 1, p. 5-8. *The figures in this column are calculated by applying the calculated shares of each category in the total ESL liability in column 3 by total ESL contributions paid in 2023-24 ($1,389 million).

2.2 NSW Government Reform Objectives

The NSW Government intends to reform the existing ESL model, replacing the insurance-based levy with a broader property-based mechanism, such as a tax on land values.[16] Since the analysis in this report was initially prepared, the NSW Government released, on 1 May, specific reform options which we review in Section 5, after presenting our modelling of the switch to a broad-based property tax, rather than any of the specific detailed design options developed by NSW Treasury.

The NSW Government reform aims to reduce insurance premiums, a recognised driver of underinsurance, and distribute the cost across all property owners who benefit from emergency services rather than only those with property insurance. A key principle is to ensure the new model is revenue-neutral, with total revenue collected meeting, but not exceeding, the funding needs of agencies like Fire and Rescue NSW, the NSW Rural Fire Service, and the State Emergency Service.

A second objective is to ensure that protections, including meaningful discounts or deferrals, are built into the new levy framework to avoid disproportionate burden on households with limited capacity to pay. Simplicity and fairness are also principles the Government aims to honour by designing a model that is equitable, transparent, and administratively efficient, with guidance from stakeholder consultation.

The Government has also committed to sustainability in funding levels—funds raised should reliably meet rising demands due to climate change and increasing emergencies, using a funding framework based on multi-year rolling averages to smooth volatility in annual budgets. Crucially, the Government intends that the reform process is informed by robust data and transparent analysis: legislation now enables NSW Treasury to collect detailed property and insurance data to model distributional impacts, and the Independent Pricing and Regulatory Tribunal (IPART) will monitor insurers during transition to ensure promised premium reductions are passed on.

2.3 Principles of taxation

The current model places the burden on insured households and businesses. It has been criticised for distorting insurance markets, worsening underinsurance, and creating inequities. A property-based levy, as proposed by the NSW Government, can be assessed against these principles to test whether it represents an improvement in terms of both equity and economic efficiency. The following table documents the extent to which the current ESL and the proposed

[16] Some potential property-based mechanisms to raise revenue to fund emergency services are discussed later in this report.

property levy comply with well-recognised tax principles that were articulated in the Henry review into Australia's Future Tax System.[17]

Table 4. Assessment Matrix: Tax Principles Applied to ESL Reform

Principle	Current ESL (Insurance-based levy)	Proposed Property Levy
Equity (fairness)	Narrow base—only insured households and businesses contribute; regressive impact on low-income groups.	Broad base—all property owners contribute; costs can be linked to property value, improving vertical equity.
Efficiency	Distorts insurance markets by raising premiums and encouraging underinsurance.	Less distortionary; property is immobile and does not discourage socially desirable insurance coverage.
Simplicity/Transparency	Opaque—hidden in premiums and compounded by GST and stamp duty; difficult for consumers to identify true cost.	Clear, visible charge on property rates notices; easier for taxpayers to understand and government to administer.
Sustainability/Adequacy	Volatile base—revenue depends on the level of insurance uptake, which declines as premiums rise.	Stable base—property values and ownership provide consistent revenue to meet rising emergency service costs.

Note: Policy consistency is another element, but we have subsumed it under efficiency and simplicity.

2.4 Evidence on deadweight losses of different taxes

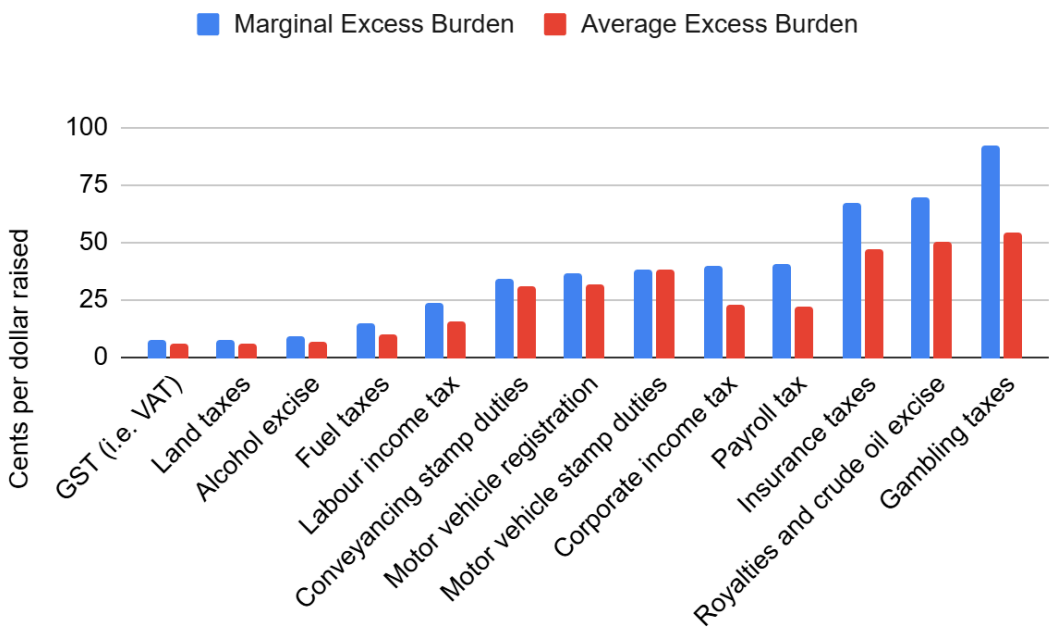
Taxes have two main effects. First, they transfer resources from taxpayers to governments, enabling public spending. Second, they influence behaviour, as people adjust their actions to take account of tax burdens. These behavioural changes generally reduce overall output and efficiency (except where the tax is levied on activities that are themselves harmful, such as pollution). These costs are known as 'deadweight' economic costs. In this case, the current ESL increases the cost of insurance and adversely influences the behaviour of consumers and businesses regarding insurance coverage. The current ESL imposes deadweight costs because it is levied on a productive activity - insurance - which is a principal means by which individuals and businesses do business in the presence of large risks. This contributes to both prudence and economic efficiency and, accordingly, discouraging it diminishes both.

Macroeconomic modelling has highlighted differences in the excess burden of taxation. This burden is a particular form of deadweight economic loss. It is the cost to society of raising revenue through taxation over and above the actual tax revenue collected. It stems from behavioural changes: people buy less, work fewer hours, save less or substitute into untaxed

[17] Henry, K. et al (2009) Australia's future tax system - Report to the Treasurer

activities. The excess burden of different taxes varies substantially across categories of taxation (Figure 1).

Figure 1. Excess burdens of different taxes



Source: KMPG Econtech (2010) CGE Analysis of the Current Australian Tax System, Final report, p. 5.

The average excess burden (AEB) measures the total deadweight loss per dollar of revenue raised by a tax. In contrast, the marginal excess burden (MEB) measures the additional deadweight loss by raising one more dollar of tax revenue. Distortions tend to rise faster than revenue at higher tax rates, so MEB is larger than AEB in most cases. AEB provides a measure of the economic cost of the tax that has already been raised, while MEB looks at the impact of raising an additional amount. MEB is more relevant for tax reform because it provides an indication of the costs and benefits of changes at the margin, whether they involve raising additional revenue from a given tax or switching the burden onto another tax. It also provides a better estimate of the immediate gains from reducing tax burdens.

The figure also makes clear that stamp duties and levies on insurance sit at the higher end of the spectrum for excess burden, both on a marginal and average basis. These transaction-based taxes distort behaviour significantly, encouraging households and businesses to under-insure or not insure at all. By contrast, broad-based property taxes such as land tax or those linked to capital improved values impose a much lower excess burden.[18]

[18] Henry, K. et al (2009) Australia's Future Tax System, p.48.

This contrast highlights why shifting revenue reliance away from insurance levies toward property-based models can improve efficiency and equity in the overall tax mix.

3. NSW Treasury's Specific Reform Options

3.1. Purpose and context

Since the 2024 consultation paper discussed in Section 1, the NSW Government has advanced its reform of emergency services funding from questions of principle to questions of design. Drawing on extensive data collecting and matching from insurers and councils, it has released an options paper setting out five specific models for a replacement levy. The issues facing policy makers have accordingly moved from whether or not to shift away from an insurance-based levy to how such a reform should be structured.

The Government has indicated that it has no preferred approach and that the options are intended for discussion, having been prepared to assist the Legislative Assembly Select Committee on Emergency Services Funding Reform and its inquiry.

All five options offer a revenue-neutral structure of tiered fixed charges applied to a land-value base, guided by the design principles of cost recovery, equity, efficiency, simplicity and sustainability.[19] These principles from NSW Treasury are consistent with the principles LE applied in this report (refer to Table 4 in section 2.3).[20]

Our earlier analysis established the case for moving the levy off insurance premiums and modelled the broad-based property-tax alternative. This section takes the next step. It reviews the Government's specific design choices, assesses the five options against the reform objectives and against the affordability, coverage and equity outcomes that matter most to insured households and businesses, and offers a reasoned view on which option best advances those objectives.

3.2. Treasury's levy design framework

The framework set out in the options paper has two defining features:

1. a revenue base of land values; and
2. a structure of increasing fixed charges.

[19] NSW Treasury (2026) Emergency Services Funding Reform–Options Paper, pp. 18-19.
[20] Note: LE has assumed all reform options are revenue-neutral. Accordingly, we do not proceed to set out our evaluation of each reform option against this criterion, as the options cannot be distinguished from each other on this criterion.

Owners of properties within a defined land-value range pay the same fixed levy amount, with higher ranges attracting higher charges, subject to a minimum contribution (a floor), and a cap on the largest contributions (a ceiling). The number of value thresholds, and the steepness of the charges between them, vary across the five options and reflect differing weights given to equity relative to simplicity.

We are pleased to see the options paper embrace land values as the revenue base as we have in this report. Our modelling of the efficiency gains from reform was built on an unimproved land-value base, and it is precisely that base that delivers the result reported in section 5, that a revenue-neutral switch from an insurance based levy to a land-value levy removes close to four-fifths of the deadweight loss associated with current arrangements. Treasury's framework adopts that same base, explicitly setting aside capital-improved and gross-rental values. These alternatives would tax improvements and hence are markedly less efficient than a tax on land. Moreover, the Government's stated reasoning, that revaluing the state's properties on those bases could take years and would blunt the economic dividend, aligns with our own finding that the efficiency case for reform rests on shifting to an efficient levy on unimproved land values and not merely on moving the levy off insurance.

In summary, NSW Treasury's reform options are consistent with the equity and efficiency arguments advanced earlier: a broad base in which contributions rise with capacity to pay, proxied by property value, and which no longer penalises the decision to insure.

The options paper applies fixed charges in tiers defined by ranges of land values (described in the next subsection), so that contributions rise in steps, as opposed to the *ad valorem* levy modelled in section 5. A summary of the differences between the two broad design choices, including the differences according to the key design principles adopted by NSW Treasury, is presented in Table 5.

Table 5. *Ad valorem levy* (modelled in Section 4) compared with Treasury's tiered fixed charges design

Dimension	Ad valorem land levy (modelled in Section 4)	Tiered fixed charges (options paper)
Revenue base	Unimproved land values	Unimproved land values — same base
Structure	Single rate applied to land value; contributions rise smoothly and continuously	Fixed dollar amount per land-value band; contributions rise in steps, subject to a floor and ceiling
Efficiency	Very low excess burden, as land is the base	Equally efficient as land is the base.
Equity (capacity to pay and benefit principle)	Tracks capacity to pay continuously; stronger vertical equity in terms of capacity to pay; broadly related to benefits received	Coarser — owners across a band pay the same; floor lifts the lower end, ceiling moderates the top; more tiers narrow the gap; also broad but imperfect relationship with benefits received
Simplicity and certainty	Rate applied to a periodically revalued base; less transparent to owners	Known dollar amount per band; simpler and more certain
Sustainability (revenue adequacy)	Stable, near-universal base; revenue moves with land values, giving buoyancy but some exposure to valuation swings	Same stable base; amounts set directly to the funding target each year, giving strong revenue control but requiring charges and thresholds to be re-set periodically to keep pace with costs

From an efficiency perspective, the distinction is immaterial, as both the *ad valorem* levy and the fixed levy would be imposed on the immobile tax base of land. To the extent that there are administrative and compliance cost reductions from a fixed versus an *ad valorem* levy, the fixed levy will be more efficient, but the savings are likely marginal.

On equity, the *ad valorem* structure we modelled tracks capacity to pay more closely and continuously. The tiered structure that NSW Treasury proposes is coarser, with owners across a band paying the same amount, and with the floor raising contributions at the lower end and

the ceiling moderating them at the top. Vertical equity is correspondingly weaker than under an *ad valorem* levy, although the options with more tiers narrow that gap. On simplicity and transparency, the fixed-charge structure holds the advantage: a known dollar amount per band is easier to understand, and more certain for property owners, than a rate applied to a periodically revalued base.

When we refer to the equity of a levy in what follows, we are concerned chiefly with vertical equity, whether contributions rise with capacity to pay, proxied here by land value. The tiered structure is designed to address the equity dimension, and it is the one on which the options differ most. Horizontal equity, the like treatment of properties in like circumstances, matters too, and is largely satisfied by a fixed-charge structure in which properties of similar land value attract the same levy. But it is not satisfied perfectly: the steps between tiers mean that two properties of near-identical value on either side of a threshold can pay materially different amounts (discussed in 5.4), and the regional and property-type adjustments in Options D and E treat similarly-valued properties differently by design.

Capacity to pay is not the only principle bearing on the question of who should fund the levy. The benefit or user pays principle, that those who benefit from a service should contribute towards its cost, also applies, and it underpins part of the NSW Government's rationale. Because the whole community benefits from the availability of emergency services, all property owners, and not only those who insure, should contribute. The options paper makes this community-based argument explicitly and grounds the universal minimum contribution in it.[21] The user pays principle may also lend some support to higher contributions from higher-value properties, to the extent that more is at stake and a greater value of protection is drawn. Note however that land value is an imperfect proxy for benefit, and it is capacity to pay, rather than benefit, that principally justifies the increasing schedule.

Note that because the headline figures in Section 5, an average household levy of around $253 and an average saving of about $55, were derived on an *ad valorem* basis, they are best read as indicative rather than precisely transferable to any single option.

3.3. The five options at a glance

The options paper presents five levy models, all built on the same framework of increasing fixed charges applied to land values and all revenue-neutral by design. They share a common set of concessions and transition arrangements, and differ only in how they trade equity against simplicity and in the targeted adjustments some apply. The five are summarised in Table 6. The specific levy amounts and land-value thresholds for each, for all property sectors, are set out in

[21] Ibid., pp. 4, 9, 14.

Table 8 of the options paper.

Table 6. Summary of NSW Treasury's five ESL reform options

Option	Structure	Distinguishing feature and intent	Residential bands and levy, 2023-24
A	Four tiers	Baseline; prioritises simplicity and certainty	≤$302k: $175 –$728k: $225 –$1.41m: $300 >$1.41m: $523
B	Four tiers, greater escalation	Steeper charges at the top, shifting burden onto higher-value properties	≤$302k: $158 –$728k: $225 –$1.41m: $300 >$1.41m: $573
C	Six tiers	Extra bottom tier (relief for lowest values) funded by extra top tier; improves vertical equity at some cost to simplicity	≤$170k: $141 –$302k: $175 –$728k: $225 –$1.41m: $300 –$1.94m: $523 >$1.94m: $623
D	Four tiers, regional discounts	Eases the burden outside metropolitan areas; targets geographic equity	≤$302k: $189 –$728k: $243 $1.41m: $324 >$1.41m: $564 *(Greater Sydney, non-concessional; 20–50% regional discounts apply)*
E	Four tiers, surcharges by property type	Separate charges for houses and units; targets differences across property uses	Houses: $161 / $211 / $286 / $509 *(same bands as A)* Units: $211 / $261 / $336 / $559 *(same bands as A)*

Source: LE analysis of options presented in NSW Treasury (2026).

3.4. Assessment against the reform objectives and design principles

The options as different resolutions of the equity-simplicity tradeoff

The five options are best understood as different resolutions of a single tension. Because all share the same land-value base and fixed-charge structure, they deliver broadly the same efficiency dividend and differ mainly in how they balance equity against simplicity: finer tiers and targeted adjustments improve the alignment between contributions and capacity to pay, at the cost of a more complex levy. Two clarifications make this framing precise.

First, the options paper attributes the efficiency benefits to the replacement of the insurance levy by a levy on land-values, features common to all five options. It therefore compares the options themselves on equity and simplicity.[22] The efficiency gains estimated in Section 4 therefore sit beneath each option more or less equally.

While the options differ in cost as they grow more complex (i.e. more tiers, regional classifications and property-type distinctions raise the cost of administering and complying with the levy), the options paper treats this under simplicity.[23] The simplicity principle expressly values low compliance costs, and we follow that approach, though we note parenthetically that the simplicity principle is, in part, carrying the compliance-cost dimension of efficiency.

Second, the fixed-charge structure produces discrete steps in the levy at each land-value threshold: owners of otherwise similarly valued properties on either side of one of the levy's value thresholds pay materially different amounts. The options paper illustrates this for the residential sector, where a property valued at $1,405,000 attracts a levy of $300 while one at $1,415,000 attracts $523. These steps are an unavoidable feature of any tiered fixed charge. The *ad valorem* structure modelled in Section 4 would avoid them, though at the expense of the greater certainty and simplicity that fixed charges provide. However, the fixed charges could bear on perceived fairness, since neighbouring properties of near-identical value can face quite different contributions, which could matter for public acceptance of the reform.

One weakness of the tiered approach is the fixed levy on the top tier. Property values are right-skewed: the top tier begins at $1.942 million (roughly the top 5% of residential properties), but some properties are worth many multiples of that threshold, and a fixed levy leaves the revenue they could contribute untapped (Box 1).[24] Charging the top tier in proportion to value,

[22] Refer to NSW Treasury (2026, p. 20 and p. 55).
[23] In the Options Paper (NSW Treasury, 2026, p. 19), simplicity is defined as "simple transparent and easy to understand, calculate and pay, with low compliance costs to minimise the time and effort of levy payers."
[24] NSW Treasury (2026, p. 48).

or alternatively adding additional tiers with higher levy rates, would fund levy reductions for the other tiers, improving vertical equity and increasing the number of winners from the reform.

Box 1. The benefits of an *ad valorem* levy on the top tier or additional tiers

The only benefit of tiering is administrative simplicity. One way to capture its benefit analytically is to give the simplicity a single unit value per levy payer — say no more than $10 per user. The relative benefit of this $10 simplicity dividend fades as the value of the property and the levy imposed rise.

Given the approximately 150,000 residential properties in the $1.941 million+ top tier in Option C (i.e. 5% x 3.1 residential properties in NSW), and if it is assumed conservatively the average value in the top tier is $3 million, an average ESL levy of $962 per property could be earned from the top tier (i.e. $3 million / $1.941 million x top tier levy of $623).

The cost of forgoing tiering's simplicity at the top is a real resource cost of perhaps $10 per property in additional administration. What it buys is a transfer of around $340 per top-tier property — revenue that reduces the burden on every other tier. Whatever weight one places on the equity gain, it is being purchased very cheaply.

The total additional revenue of $51 million (i.e. 150k properties x $340 per property) could fund average levy reductions for the other tiers of around $17. This could be the difference between the policy reform yielding net benefits or losses for thousands of households. While we have modelled an *ad valorem* levy on the top tier, a similar effect could be achieved by suitably designed additional tiers with fixed levy rates.

These calculations are indicative and should be recalculated using NSW Treasury's superior data.

If the Government is concerned about the number of users caught at the top threshold, it could create a higher one designed to catch the top 500-1,000 properties or so.

Assessment against the design principles

Since all five options deliver the same efficiency and net revenue outcomes, the assessment below concentrates on the principles on which they differ: equity and simplicity, together with sustainability.

Equity

NSW Treasury identified three considerations it considers relevant in assessing the equity-simplicity tradeoff, namely:

- all property owners should make a minimum contribution;
- levy amounts should be higher for properties in higher land value bands; and
- for individual property holders, the replacement levy is not too different to the rates they are currently paying, so that impacts on levy burdens per property are "moderated".[25]

The first consideration relates to the user pays principle discussed above, as all NSW residents are beneficiaries of emergency services, either through their actual use or potential use.

The second consideration is presented by NSW Treasury as relating to the capacity to pay principle. However, in our view, it also has some relation to the user pays principle. While the levy base is unimproved land value, higher-value land parcels tend to carry larger or more valuable improvements, and a larger structure implies a larger potential emergency.[26] The resources required to respond to a fire within a built structure, including water, fire appliances and crew, scale with the structure's floor area.[27] The correlation between land value and the potential scale of an emergency is therefore real, albeit imperfect, as it runs through the improvements on the land rather than the land itself.

The third consideration has the least compatibility with standard equity markers. The desire to moderate the impacts of the levy burdens is more of a matter of political statecraft than the economics of equity, or efficiency for that matter. Hence our preliminary assessment of the equity aspects of the reform options considers only capacity to pay and the user pays principle.

The clearest differences between the options are in how closely contributions track capacity to pay, proxied by land value. Option A, with four tiers, is the coarsest fit. Option C, by adding a lower tier funded by a higher one on the top 5% of properties in each sector, aligns contributions more closely with land value and is the most progressive of the five. Option B steepens the charge at the top without adding tiers, concentrating additional burden on the highest-value properties, most visibly in the public benefit sector. At the aggregate level these differences are modest. On Treasury's modelling, around 55% of insured properties would pay

[25] NS Treasury (2026, p. 20).
[26] See Gabriel M. Ahlfeldt and Daniel P. McMillen (2018), "Tall Buildings and Land Values: Height and Construction Cost Elasticities in Chicago, 1870–2010," *Review of Economics and Statistics*, 100(5), 861–875, https://doi.org/10.1162/rest_a_00734. Note this reveals the correlation is much stronger for commercial than for residential property.
[27] Blanksvard, C. (2009) An Examination of Fire Flow Determination Methods for Possible Use by Rock Springs, available at https://apps.usfa.fema.gov/pdf/efop/efo44048.pdf.

less under any of the options, and the share varies only slightly between them, from 54.2% under Option D to 55.9% under Option E.[28]

What varies more is which cohorts benefit. Two options are targeted to that end: Option D applies regional discounts of 20% to 50%, materially raising the share of regional and rural owners who pay less while lowering it for Greater Sydney, and Option E distinguishes houses from units. Both speak directly to the equity concerns identified in Section 4, the position of households in high-premium, disaster-prone regions, and of those in apartments and townhouses, and we examine their distributional incidence in 5.5.

A summary of our indicative equity assessment is presented in Table 7.

[28] NSW Treasury (2026, p. 55).

Table 7. Indicative equity assessment of the five options

Option	Equity considerations	Preliminary equity score (out of 10)
A — Four tiers	A broad-based improvement on the ESL, but the coarsest fit to capacity to pay: four wide bands mean owners of quite different land values pay the same, and the large top-tier jump produces the sharpest threshold effects. No targeting of specific cohorts.	5
B — Four tiers, greater escalation	Lowers the lowest-tier charge and steepens the top, so more progressive than A at both ends; but it concentrates additional burden on the highest-value properties (notably public benefit) and enlarges the jump at the top threshold.	6
C — Six tiers	The finest fit to land value: an extra lower tier relieves the lowest-value owners, funded by an extra top tier on the top 5% in each sector. The most progressive of the five, and the additional tiers reduce the size of each threshold jump. Its cost falls on simplicity, not equity.	8
D — Four tiers + regional discounts	Retains A's coarse four-tier base but adds regional discounts of 20–50%, easing the burden on regional and rural owners and raising their share paying less. Aligns with the NSW Government's concern for households in high-premium, disaster-prone regions. Departs from strict horizontal equity on land value, justified only if location is accepted as an equity criterion.	7
E — Four tiers + property-type surcharges	Retains A's four-tier base and adds a house/unit distinction in the residential category. This can be justified based on the user pays principle, as units have lower land values than houses typically but can generate similar demands on emergency services. Option E also maintains close-to-existing levy rates for the mining sector.	7

Simplicity

Simplicity runs in the opposite direction to equity. Options A and B are the simplest, applying four tiers with no further adjustment. Option C adds two tiers, a modest increase in complexity for its equity gain. Options D and E are the least simple: D requires properties to be classified by location, and E by type — and the options paper notes that Option E would require a new property-type database for some sectors, with associated costs and lead times. Notably, all five remain markedly simpler and more transparent than the current ESL, so simplicity is a question of degree among improvements rather than a barrier to any option.

Table 8. Simplicity assessment of the five options

Option	Simplicity considerations	Preliminary simplicity score (/10, indicative)
A — Four tiers	The simplest design. Four fixed charges applied to existing land valuations, with no further classification; easy for owners to understand and predict, and low to administer.	9
B — Four tiers, greater escalation	Structurally identical to A, with four charges on existing valuations, so just as simple to understand and administer; the steeper escalation changes the amounts, not the mechanics.	9
C — Six tiers	Adds two tiers but no new data: the levy still rests on land value alone. Marginally harder to follow than four bands, and a little more to administer, although probably trivial given technology, but no new classification is required.	8
D — Four tiers + regional discounts	Introduces a second classification dimension; properties must be identified by location and the relevant discount applied, adding administrative steps and making the levy a little harder for owners to predict. Still within reach of existing data.	6
E — Four tiers + property-type surcharges	The least simple. Requires reliable classification of properties by type (houses versus units; mining versus other industrial), and the options paper notes that extending type-based charges to the commercial, farm and public benefit sectors was ruled out because it would need a new database, "with associated costs and lead times."[29] The added data requirements and lead time bear on the timing of commencement.	5

[29] NSW Treasury (2026, p. 54).

Sustainability

On these two principles the options are effectively equivalent. All five are revenue-neutral by construction, each calibrated to the same sectoral targets, so cost recovery is satisfied in every case. And all five rest on the land-value base, which provides the stable, near-universal revenue source the current insurance-based levy lacks. This is the sustainability gain emphasised earlier in this report. Because the levy amounts and thresholds are reset each year to meet the funding target, revenue adequacy is maintained by design rather than left to the buoyancy of the base. Sustainability and cost recovery are therefore shared strengths of the framework rather than points of difference; the regional discounts and property-type surcharges in Options D and E redistribute the burden within each sectoral target rather than alter the total raised.

Summary

On efficiency, sustainability and cost recovery the five options are broadly equivalent. The meaningful differences lie in the equity-simplicity trade-off above.

Taken together, the assessment points to a familiar trade-off: the options that score best on equity — C, and the targeted D and E — are those that cost most in simplicity and administration, while the simplest, Option A, is the least closely aligned with capacity to pay. We weigh these against the reform objectives in section 5.6, after considering the distributional incidence in 5.5.

3.5. Distributional and sectoral implications

LE does not have access to the matched insurance-property dataset that NSW Treasury used for its analysis and our analysis is necessarily limited by that fact. That said, we have made our best endeavours to understand the impacts of the different NSW reform options and can reach some reasonable conclusions about the merits of the different options. We analysed the different options by calculating *ad valorem* equivalent rates for the levies for the different options and property types. This was done to evaluate the equity impacts, including the relative burdens across different sectors.

The most useful way to present the analysis is by property type, which allows us to focus on the equity aspect for owners of the same type of property. In Appendix B, we present the results by looking at each option by property type separately. This reveals what would be expected, that the levy burden on commercial and industrial properties, and particularly on mining in Option E, is much higher than on residential properties. Note the high mining charge is designed to match what large mines already pay under the ESL.[30] Treasury notes that some mining properties, especially large mines, currently make large ESL contributions. Whichever

[30] NSW Treasury (2026, pp. 52-53).

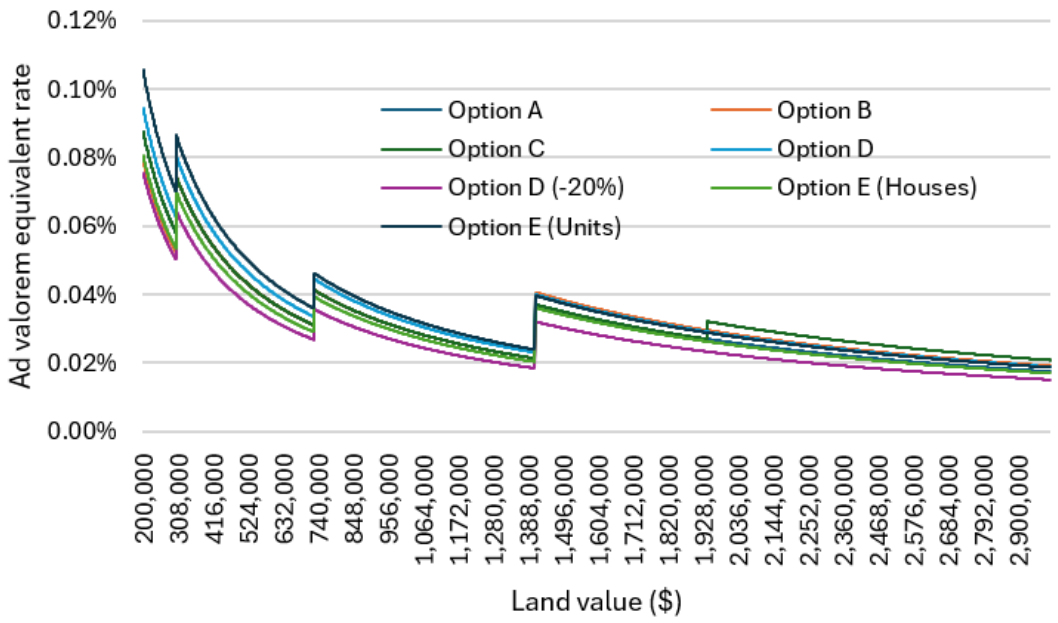
option is chosen ultimately, it may be desirable to continue charging the mining sector significantly more than other sectors, and what would be implied by options A to D, given the significant demands the sector could place on emergency services. NSW Treasury, in consultation with emergency services, is best placed to determine what would be an appropriate contribution consistent with the user pays principle.

Residential property

Our analysis of *ad valorem* equivalent rates for the levies on residential property (Figure 2), reveals the following:

- the options are variations on the same theme, and while vertical equity may be better in the option with more tiers (Option C) or where there is a regional discount (Option D) or units are charged more in line with the user pays principle (Option E) than in Option A or B, they are all variations on the same theme;
- the levies increase less than proportionally with the property value, raising some doubts about how it satisfies vertical equity; and
- common to all the options owing to fixed levies applied to bands of property values, there is a saw-tooth pattern with a significant jump in levy for properties as they cross a threshold.

Figure 2. *Ad valorem* equivalent rates for proposed ESL levies–Residential



Further analysis of the relationship between unimproved land values, improvements, and demands on emergency services would be desirable to establish whether the proposed levies rise sufficiently as land values increase. As noted above, higher value properties are likely to

have higher value improvements, and the value of emergency services in protecting property would be greater. It has possibly missed an opportunity to levy higher charges on more valuable properties, either by additional tiers or an *ad valorem* levy on the top tier, improving the equity of all options, both for capacity to pay and user pays principle reasons.

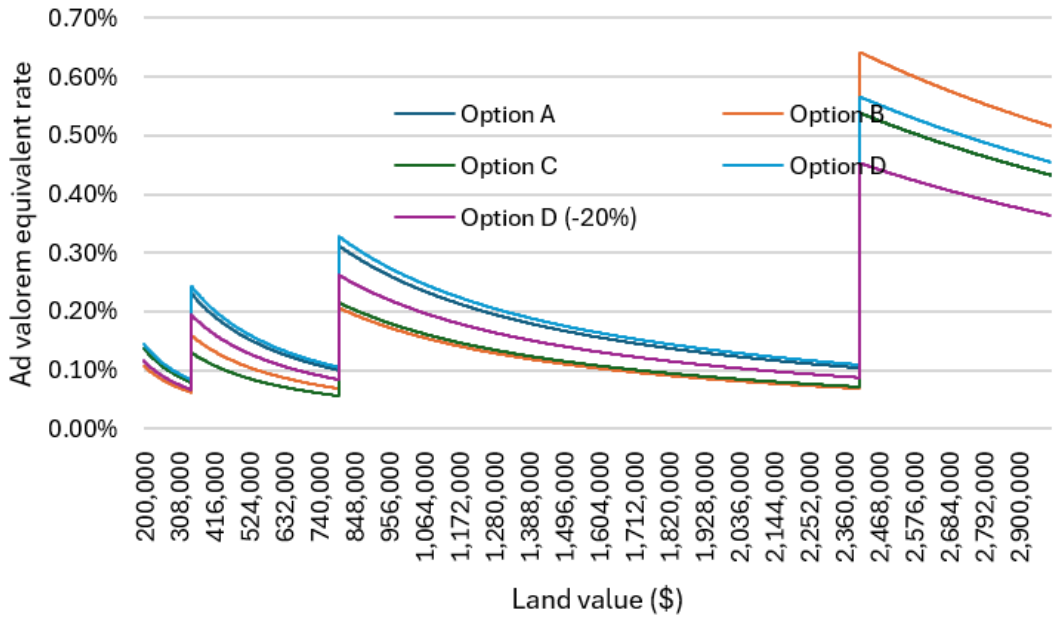
Non-residential

Our analysis of the non-residential sectors revealed the following:

- *ad valorem* rates tend to increase with the capacity to pay (Figures 3 to 5), except for farms (Figure 6), and subject to the qualification regarding the saw-tooth pattern already made; and
- there are large jumps in *ad valorem* rates, particularly for industrial, commercial and public benefit land (i.e. land used for schools, hospitals, etc.) above certain thresholds, and NSW Treasury may wish to consider additional tiers to ensure more moderate jumps.

As with residential property, Option C with six tiers is probably the preferable one due to vertical equity considerations, although there is a peculiar formula in Option C for public benefit land (i.e. $175 for land valued up to $3.26 million and $11,735 beyond that). NSW Treasury argues this is justifiable given the distribution of current ESL costs in the sector.[31]

Figure 3. *Ad valorem* equivalent rates for proposed ESL levies–Commercial



[31] NSW Treasury (2026, pp. 47-48).

Figure 4. *Ad valorem* equivalent rates for proposed ESL levies–Industrial

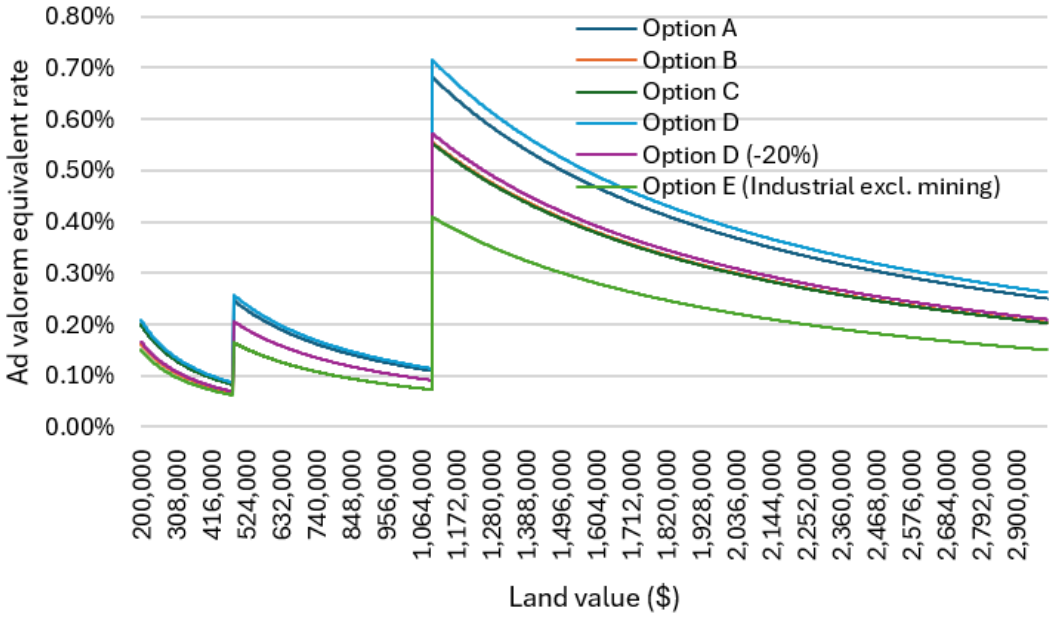


Figure 5. *Ad valorem* equivalent rates for proposed ESL levies–Public benefit

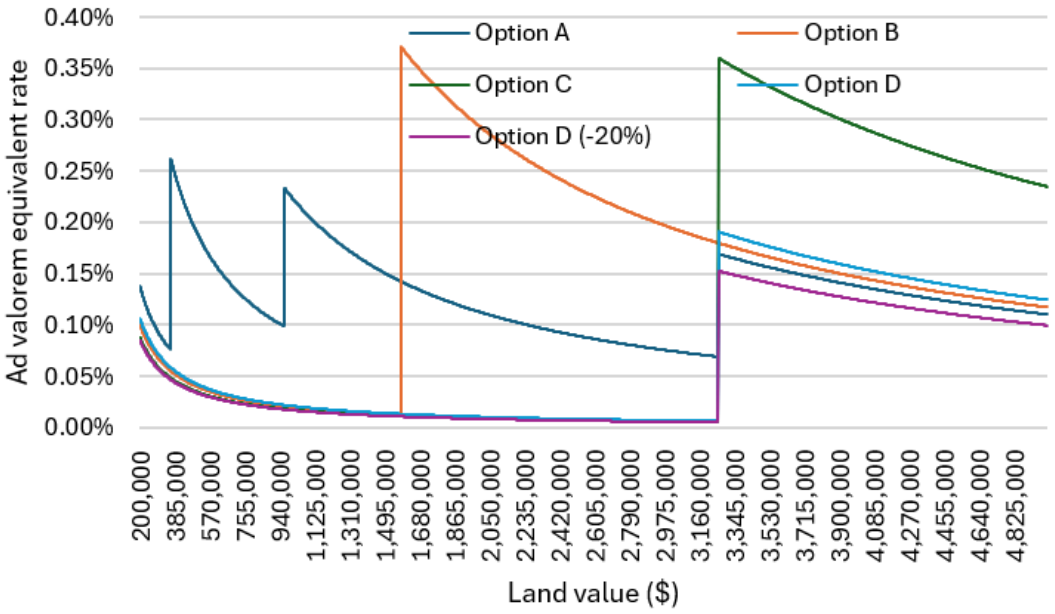
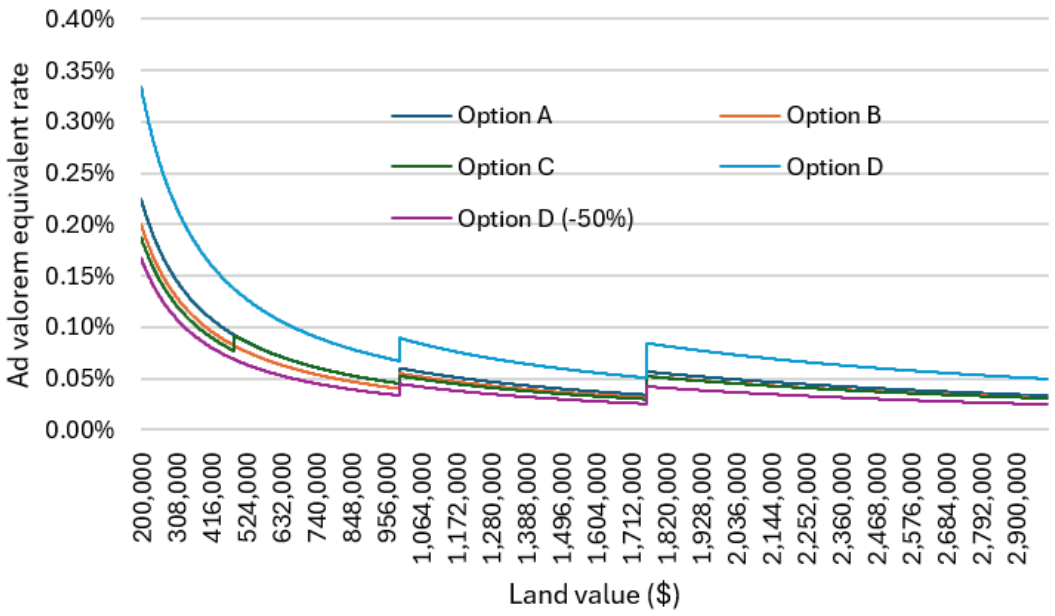


Figure 6. *Ad valorem* equivalent rates for proposed ESL levies–Farm



3.6. Case studies

We now assess the benefits for specific cohorts under Option C to better understand its impacts. We focus on the following groups chosen to illustrate the equity impacts of the reform:

- households in disaster-prone, regional areas;
- pensioner households;
- households living in strata properties (disproportionately renters); and
- small and medium businesses with different levels of risk exposure.

These case studies are based on a comparison of current ESL payments under typical insurance policies with the ESL that would be paid under NSW Treasury's proposed option C. Note that the case studies are illustrative, based on realistic values informed by desktop research and industry consultations, rather than exact estimates of average impacts on the cohorts.

Households in disaster-prone regional areas

Our estimates of the impact on households in disaster-prone, regional areas are presented in Table 9. This reveals substantial gains from the policy change, given the high insurance premiums such households pay. Under option C, households in disaster-prone regions with home and contents insurance could save between $565-600 annually.

Table 9. Case study–household in disaster-prone, regional area

Item		Value	Notes
ESL levy calculation (current model)			
A	Home & contents insurance premium in NSW (pre-levies/tax)	$1,960	Based on Canstar estimate for NSW discounted by ESL, GST and stamp duty rates).
B	Uplift due to living in disaster-prone area	75%	We assume premiums in disaster-prone areas are 75% higher than in non-disaster prone parts of NSW (Refer to section 5.5.1).
C	Home & contents insurance cost (pre-levies) in disaster-prone area	$3,430	C = A x (1 + B)
D	Insurance incl. GST and stamp duty	$4,113	Value in C uplifted by 10% GST and 9% stamp duty.
E	ESL uplift to cost of residential insurance	18%	NSW Treasury (2024, p. 8).
F	ESL levy, incl. stamp duty & GST	$740	F = D x E
ESL levy calculation (option C)			
G	Unimproved property value	$250,000	Based on review of vacant land prices in Lismore, NSW on real estate websites.
H	Levy rate under option C	$175	Based on Table 8, NSW Treasury (2026, p. 54).
I	Savings from ESL reform	$565	I = F - H
ESL levy calculation (option C + 20% discount)			
J	ESL levy	$140	J = H x (1-20%)
K	Saving from ESL reform with 20% discount	$600	K = F - J

Pensioner households

We model the impact on an illustrative pensioner household with home and contents and motor vehicle insurance policies, with and without a specific pensioner discount (Table 10). With ESL reform, the pensioner household could save $125 or $185 with a 20% discount.

Table 10. Case study–A pensioner household with home and contents and motor vehicle insurance

Item		Value	Notes
ESL levy calculation (current model)			
A	Home & contents insurance premium in NSW (pre-levies/tax)	$1,840	Based on Canstar estimate for NSW discounted by ESL, GST and stamp duty rates).
B	Insurance incl. GST and stamp duty	$2,206	Value in A uplifted by 10% GST and 9% stamp duty.
C	ESL uplift to cost of residential insurance	18%	NSW Treasury (2024, p. 8).
D	ESL levy on home & contents insurance, incl. stamp duty & GST	$397	D = C x B
E	ESL levy on motor vehicle	$28	Refer to Table 7.
F	Total ESL levy paid by household	$425	F = D + E
ESL levy calculation (option C)			
G	Unimproved property value	$750,000	Based on example for a $1.5 million Sydney property provided by AAP Valuations
H	Levy rate under option C	$300	Based on Table 8, NSW Treasury (2026, p. 54).
I	Savings from ESL reform	$125	I = F - H
ESL levy calculation (option C + 20% discount)			
J	ESL levy	$240	J = H x (1-20%)
K	Saving from ESL reform with 20% discount	$185	K = F - J

Notes: Regarding unimproved value, see Unimproved Land Value Explained: What It Is & How It Affects Your Property | AAP Valuers.

Households living in strata properties

We model the impact on households living in a strata property with home and contents and motor vehicle insurance policies, with and without a regional discount (Table 11). We also consider the impact of a $50 surcharge for strata properties, proposed by NSW Treasury for Option E.[32] The strata property owner in the case study comes out ahead, by $91-$136 annually, but the margin they are ahead is significantly curtailed by the $50 surcharge, and could fall to only $41.

[32] NSW Treasury (2026, Table 8, p. 54).

Table 11. Case study–Household in strata property

Item		Value	Notes
ESL levy calculation (current model)			
A	Per unit strata insurance cost (pre-levies/tax)	$1,000	Based on Insurance News report
B	Insurance incl. GST and stamp duty	$1,199	Value in C uplifted by 10% GST and 9% stamp duty.
C	ESL uplift to cost of residential insurance	18%	NSW Treasury (2024, p. 8).
D	ESL levy on building insurance, incl. stamp duty & GST	$216	F = B x C
E	ESL levy on contents insurance	$25	Refer to Table 7.
F	ESL levy on motor vehicle insurance	$75	Estimated based on $500 contents insurance cost sourced from Canstar research.
G	Total ESL levy paid by household	$316	G = D + E + F
ESL levy calculation (option C)			
H	Unimproved property value	$312,500	Based on example for a $1.5 million Sydney property provided by AAP Valuations, discounted by 60% to reflect the land component being a smaller component of property value in units; refer to parameters in Table 12
I	Levy rate under option C	$225	Based on Table 8, NSW Treasury (2026, p. 54).
J	Savings from ESL reform	$91	J = G - I
ESL levy calculation (option C + 20% discount)			
K	ESL levy	$180	K = I x (1-20%)
L	Saving from ESL reform with 20% discount	$136	M = G - K
ESL levy calculation (option C + $50 surcharge)			
M	ESL levy	$275	M = I + $50
N	Saving from ESL reform (incl $50 surcharge)	$41	N = G - M

Notes: Regarding the cost of strata building insurance per unit, see Strata cover 'remains affordable' while house premiums soar - Insurance News - insuranceNEWS.com.au.

Small and medium businesses

We model the impact on small and medium businesses across different insurance types and risk levels (Table 12). This is based on a review of deidentified representative data from ICA

members, which has been rounded for confidentiality, and assumptions for the size of premises based on desktop research. We see large savings for these representative NSW small and medium businesses. Indeed, the case studies illustrate how favourable the NSW Treasury's proposed reform is for small and medium businesses, and highlight the highly progressive nature of the charges we described above.

Table 12. Case study–small and medium businesses

	Account-ant	Bakery	Cafe	Mech-anic	Pilates/ Yoga	Rest-aurant	Small livestock farm
Representative ESL cost	$2,200	$380	$600	$12,000	$1,800	$9,300	$22,000
Estimated premises GFA (sqm)	120	150	80	300	140	250	20,000
Unimproved value per sqm*	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$1
Unimproved value of premises	$240,000	$300,000	$160,000	$600,000	$280,000	$500,000	$20,000
ESL under option C	$275	$275	$275	$450	$275	$450	$375
Savings in ESL	$1,925	$105	$325	$11,550	$1,525	$8,850	$21,625

*Land value based on estimate reported for Greater Sydney in Killer blow for home building as Sydney land costs explode - realestate.com.au, while the agricultural land value is based on per hectare (10,000 sqm) values across various sources.

3.7. Weighing up the options

Choosing between the options requires a view on how to weigh the principles on which they differ. As Section 5.4 sets out, efficiency, sustainability and cost recovery do not separate the options. From the perspective of economic efficiency, the central benefit of reform, the removal of the levy from insurance premiums, with the resulting gains in affordability and coverage, is delivered by all five options equally. The active tradeoff is between equity and simplicity, and we weigh equity the more heavily of the two.

We do so for three reasons. All five options are already far simpler and more transparent than the current ESL, so simplicity is best treated not as a quantity to maximise but as a feasibility constraint. The question is whether an option's complexity threatens timely, low-cost implementation. Among options that clear that constraint, little turns on whether the schedule has four tiers or six.

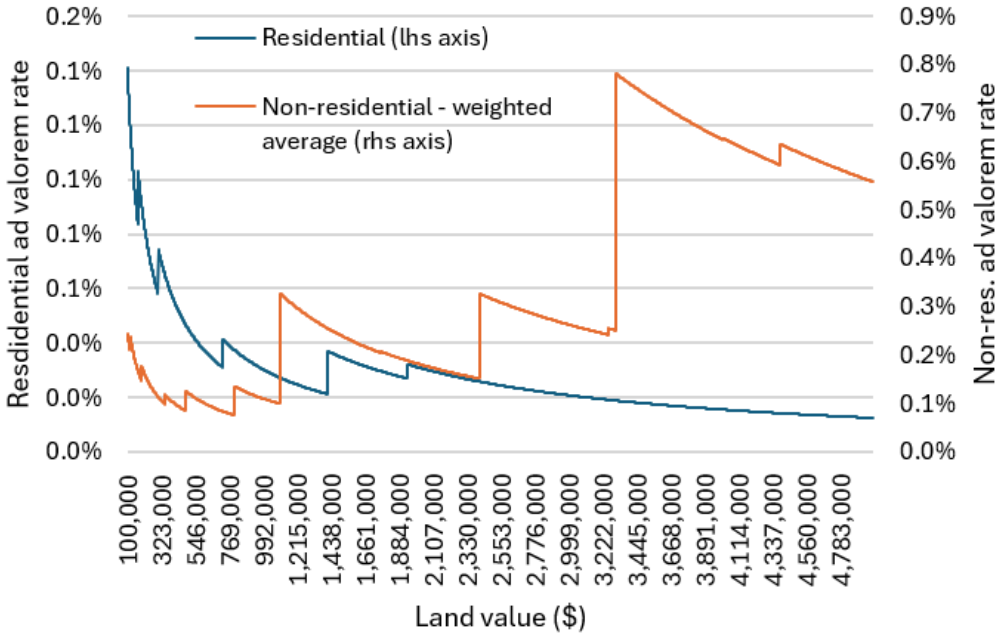
On that basis we favour options that improve equity at a modest cost to simplicity, and for the reasons set out above we favour option C which has six tiers than four and can be more closely

tied to capacity to pay and the benefit derived from emergency services. Regarding the regional discounts in Option D, we note that regional areas will benefit significantly already from the replacement of an insurance-based ESL, given regional insurance bills can be much higher, particularly in areas at higher risk of natural disasters, as discussed in this report.

This is not to say that Option C is perfect and indeed further analysis and reflection by NSW Treasury could suggest improvements, which could include:

- including the surcharge for units in option C, which could be justified by the user pays principle, if the lower relative land value of units means unit owners are not contributing sufficiently to the funding of emergency services; and
- improving the progressivity of the levies (e.g. with additional tiers or an *ad valorem* top tier) so they are better aligned with capacity to pay and the user pays principle, dependent on the correlation between unimproved land values, capital improvements, and demands on emergency services — so that the *ad valorem* equivalent rate on residential land rises with land value similar to the way it does for non-residential land, unlike the options as currently designed which we illustrate for option C in Figure 7, although this feature is common across the options (also see Appendix B).

Figure 7. Comparison of progressivity of residential and non-residential levies for Option C



Note: The "Non-residential - weighted average series" is a weighted average average of the *ad valorem* equivalent levy rates for the commercial, industrial, farm, and public benefit sectors, weighted by their share of the ESL revenue sectoral targets, reported in NSW Treasury (2026, Table 7, p. 42).

In this context we also recommend that additional tiers be added or a pure *ad valorem* levy should operate above the highest threshold in a tiered system. An *ad valorem* levy above the highest threshold does not lead to any substantial increase in complexity (the calculation remains straightforward at a given percentage of the unimproved capital value of the land). This is especially so given this tier will apply to a relatively small minority of those levied, but is better calibrated to capacity to pay and the user pays principle.

If it is regarded as more publicly acceptable, adding additional tiers rather than an *ad valorem* levy above the top tier is probably slightly preferred, given how marginal the equity benefits of the pure *ad valorem* approach would be..

Changes along these lines would make the ESL substantially fairer and more efficient. Further, raising more ESL revenue from properties valued above the top threshold would enable a reduction of levy rates for other tiers, increasing the number of households and businesses receiving a net benefit from ESL reform. This follows from the right skew of property values, whereby higher value properties will account for a disproportionate share of ESL revenues.

4. Methodology

4.1 Modelling Approach and Framework

Prior to the release of NSW Treasury's options paper in May 2026, we undertook our own analysis of the impacts of ESL reform. Our methodology is presented in this section and our results are presented in section 5. We consider these results to remain valuable as a presentation of the impacts of a pure *ad valorem* rate model, as distinct from the fixed rate levy model NSW Treasury proposes. Overall, the analysis reveals significant net benefits of the ESL reform, consistent with NSW Treasury's analysis.

The modelling approach in this analysis is twofold. First, a macroeconomic analysis considering the excess burden of tax is undertaken to quantify the difference in deadweight economic loss between two options: The collection of part of the ESL via

1. insurance premiums or;
2. a general property or land tax.

Second, an equity analysis is conducted to compare the impact of the ESL on households with varying income levels.

4.2 Data Sources and Assumptions

The main sources of data used in this analysis are:

- ABS data on the distribution of household income, consumption and wealth;
- ABS data on movements in the consumer price index (CPI);
- NSW Government data on the Essential Services Levy, including information about the applicable premium amounts for each insurance item identified under the legislation; and
- Macroeconomic modelling – estimates of the marginal and average excess burden of taxation were obtained from the KMPG Econtech CGE Analysis of the Australian tax system.

Several assumptions were developed to model the macroeconomic and equity outcomes. These were:

- National-level data on the distribution of equivalised household income, consumption and wealth is broadly applicable to NSW households.
- The change in the consumer price index between FY2022 and FY2024 provides an appropriate escalator to estimate the current value of household expenditure on insurance.

- Insurance companies have discretion about how they impose the contribution levy on individual policyholders – either as a flat rate per policy or an *ad valorem* rate.
- For modelling purposes, insurance companies do not vary the flat rate or *ad valorem* rate across insurance lines and only pass the levy through to insurance items against which the NSW Government has nominated a contribution (refer to Table 2 above).

Anecdotal information suggests that insurance companies apply an *ad valorem* amount to the insurance premiums they write.[33] This is initially based on the target contribution amount assigned to each insurance company by the NSW Government. The *ad valorem* amount can vary between insurers, depending on the lines of insurance these companies engage with. In addition, insurers have discretion to apply different *ad valorem* rates across their own insurance lines. For this report, a single *ad valorem* rate was determined to recover the contribution amount for the premiums subject to the ESL legislation.

5. Modelling Results and Analysis

5.1. Potential Savings to Households and Commercial Properties

5.1.1. Per-Premium Savings Analysis

There is insufficient information to assess the per-premium costs across the different insurance lines where contributions are imposed. However, the current insurance contribution is overwhelmingly generated from two lines of insurance that are identified in the ESL schedule: insurance of property, including consequential loss but not including any insurance of a class specified elsewhere (44%); and houseowners and householders, however designated (buildings or contents or both) (50%). In addition, motor vehicle insurance premiums generate an additional 6% of the insurance contribution revenue.[34]

To better understand how the Emergency Services Levy (ESL) is distributed across households and businesses, we examined the three main insurance items specified in the ESL schedule. This analysis sought to approximate how much of the total insurance contribution is effectively borne by different customer groups. Because insurer data are aggregated and do not separately identify household and business policyholders, the exercise necessarily involved several estimation steps based on available administrative data and reasonable assumptions.

[33] *Ad valorem* is Latin for according to value.
[34] NSW State Government (2025) Budget Paper No. 1, https://www.budget.nsw.gov.au/sites/default/files/2025-06/bp1-budget-statement-chapter5-revenue-nsw-budget-2025-26.pdf

First, we mapped each ESL insurance item to its likely customer type.[35]

- Item 1 ("insurance of property not otherwise described") was interpreted as predominantly business property insurance .
- Item 2 ("houseowners and householders') was taken to represent residential home and contents insurance.
- Item 4 ("motor vehicle insurance") covers both private and commercial vehicles and therefore required further disaggregation.

ELS Insurance Item 4 - Motor Vehicle Insurance covers both private and commercial vehicles. For motor vehicle insurance, we used ABS data showing that commercial vehicles comprise about 20% of the total fleet.[36] Because commercial vehicles are typically higher in value, we adjusted this share upward based on market data suggesting that commercial vehicles are, on average, 45% more expensive than private vehicles. This yielded an estimated business share 26.6% of total motor vehicle insurance premiums Applying this to the total number of comprehensive motor vehicle policies (around 3.8 million),[37] We estimated approximately 950,000 insured commercial vehicles in NSW.

For property insurance, we used data from the NSW Valuer General identifying approximately 2.25 million residential properties and 100,656 commercial and industrial properties, as well as an estimate of 30,000 farms in NSW based on ABARES data.[38] Insurance take-up rates were based on estimates reported by NSW Treasury for households (refer to Table ES-3).[39] .

Note that the number of households will be significantly higher than the number of residential properties identified by the NSW Valuer-General, as the Valuer-General values strata properties as individual blocks–that is, it does not separately value each unit in an apartment building.[40] Households in units pay insurance via body corporates and individually they can pay contents insurance. Our estimates of the numbers of households in NSW ultimately paying ESL are presented in Table 13a. Around 3.1 million households live in residential properties covered by building insurance and 2.1 million have at least contents insurance.

[35] Items 3, 5, 6, 7 and 8 of the insurance contributions collectively raise less than 0.3% of the insurance contribution to the ESL. Accordingly, they were not considered material and therefore are not modelled.
[36] ABS (2020) Survey of Motor Vehicle Use, (https://www.abs.gov.au/statistics/industry/tourism-and-transport/survey-motor-vehicle-use-australia/latest-release
[37] Insurance Council (2025), personal communication.
[38] NSW Valuer General (2024) Annual Report 2023/24, p.19 and ABARES (2025) Snapshot of Australian Agriculture 2025.
[39] NSW Government (2024) Reforming the emergency services funding system: Consultation paper, 10 April 2024, p. 9 and Business NSW (2023) Insurance at the Speed of Business, p. 20.
[40] https://www.nsw.gov.au/housing-and-construction/land-values-nsw/why-land-values/how-land-valued-nsw

Table 13a. Insurance coverage of NSW households

	Item	Value	Source / Notes
Households			
A	NSW population (June quarter 2024)	8,492,171	ABS Population data
B	Average persons per household - NSW (2021)	2.6	ABS Census estimate
C	Households in NSW (2023-24)	3,266,220	C = A / B
Owner occupier and renters			
D	Proportion of householders - owner-occupiers	65.1%	ABS Census estimate
E	Owner occupier households (2023-24)	2,126,309	E = D x C
F	Renting households (2023-24)	1,139,911	F = (1 - D) x C
Insurance coverage rates of households			
G	Homeowners without building insurance	4.5%	NSW Treasury (2024, p. 9)
H	Homeowners without contents insurance	16.0%	As above
I	Renters without contents insurance	75.0%	As above
J	All households without contents insurance	35.40%	As above
Estimated households by insurance coverage			
K	Building insurance	3,119,240	K = (1 - G) x C
L	Contents insurance (at least)	2,109,978	L = (1 - J) x C

Using the information in Table 13a, and other data and assumptions, we estimated the comprehensiveness of the ESL tax base applied to NSW households, taking into account levels of coverage (Table 13b). This will allow us to estimate the average burden of ESL on insured households, by adjusting what they would pay if the burden were imposed on all households rather than being dependent on their levels of insurance coverage. Our calculations suggest that the ESL tax base is at least 10% short of being comprehensive. This provides significant room for savings for the average insured household from a switch from insurance as a tax base for ESL to property.

Table 13b. Comprehensiveness of the ESL tax base as applied to households

Item	Value	Notes
Coverage - home and contents		
Building insurance - coverage		
A. Building insurance	95.5%	ESL reform discussion paper
Contents - coverage		
B. Owner occupiers	84.0%	As above
C. Renters	25.0%	As above
Split by tenure type		
D. Owner occupiers	65.1%	ABS Census 2021
E. Renters	34.9%	ABS Census 2021
F. Weighted average contents coverage (B x D + C x E)	*63.4%*	
G. Share of building insurance in total H&C premiums	*85.0%*	Assumption based on industry sources
H. Household home & contents insurance coverage relative to comprehensive tax base (G x A + (1-G) x F)	**90.7%**	
Coverage - motor vehicles		
I. Households with at least 1 motor vehicle	91.0%	ABS Census 2021
J. Motor vehicle insurance coverage	86.0%	Finder survey*
K. Motor vehicle insurance coverage relative to comprehensive tax base (I x J)	**78.3%**	
Weighted average of H and K using ESL contributions as weights	**89.7%**	

Insurance coverage by businesses is expected to be high given the significant commercial risk of being uninsured. However, although we have been unable to confirm at this stage, we understand that many large property owners, notably major shopping centre owners, self-insure and hence would avoid ESL. The existence of these large self-insured businesses means that the potential savings for typical NSW businesses–which in large part would ultimately flow on to NSW households through lower consumer prices–could be larger than estimated because bringing these large businesses into the tax base for ESL would disproportionately expand the base and allow for lower rates than otherwise. However, we lack the data to model this effect. There are also some smaller businesses that could be described as similarly 'self-insured'. But their situation is unlike self-insured corporates which have made arrangements to bring a substantial part of the financial services provided by insurers 'in-house'. They are simply uninsured and, to the extent that they have considered the matter at

all, have decided that they will take the risks of possibly incapacitating losses rather than meet the cost of insurance coverage.

We assume that insurance coverage is around 95% of NSW businesses with premises, which is approximately the coverage of building insurance for residential properties.[41] Based on available data we estimate that:

- around 6,500 non-residential lots do not have insurance policies covering them and hence avoid ESL; and
- around 22,400 NSW businesses are on premises that are not covered by building insurance and hence subject to ESL[42].

Table 14. Coverage and non-coverage by insurance and ESL of non-residential lots and NSW businesses

Item		Value	Source / Notes
Policies			
A	Number or non-residential lots in NSW	130,303	Valuer-General and ABARES data noted in the body of the report.
B	Coverage ratio	95%	Reasonable assumption in the absence of data, similar to the rate for households
C	Lots covered by insurance and hence ESL	123,788	C = A x B
D	Lots not covered	6,515	D = A - C
Businesses			
E	Total NSW businesses with premises	448,243	The number of businesses is based on ATO data on the number of businesses operating in NSW multiplied by 50% based on the assumption, informed by desktop research, that the proportion of businesses operating from home is around one-half. That is, we have confined the analysis to businesses with premises outside the home.
F	Coverage ratio	95%	Reasonable assumption in the absence of data, similar to the rate for households
G	Businesses covered by insurance and hence ESL	425,830	G = E x F
H	Businesses not covered	22,412	H = E - G

As noted in section 2.1, in 2023-24, almost half of all ESL was passed on to insurance premiums associated with residential property and contents ($695 million), with around 44%

[41] NSW Treasury (2024) Reforming the emergency services funding system, p. 9.
[42] Note: the number of businesses affected is much higher than the number of lots because of properties with multiple tenants or unit holders under strata schemes (Table 6).

passed on to non-residential (i.e. business) property and contents insurance premiums ($611 million) and around 6% on motor vehicle insurance premiums ($83 million).[43]

Using these inputs we derived indicative average ESL costs per policy and per household and business for each insurance stream before tax and after tax (Table 15). The post-tax costs include the ESL levy and the impacts of GST (10%) and stamp duty (9% for real property and contents insurance and 5% for motor vehicles).[44] GST is not included in the post-tax cost for business because any GST paid will be refunded by the ATO. We use all NSW households in insured residential properties as the denominator in the ESL per household estimates, implying that any ESL is ultimately passed onto tenants of rental properties. Notice there are large differences between ESL per policy and per household or business given many policies apply to buildings with strata title (Box 2).

Table 15. Average ESL Cost Per Policy - Households and Businesses

	ESL Revenue Estimate,$m	Number of households / businesses	Coverage relative to comprehensive tax base (%)	ESL Cost per household / business ($)*	ESL Cost per household / business incl. tax ($)
Insured Households					
Home and Contents*	694.5	3,119,240	90.7%	234.5	281.13
Motor Vehicle	61.2	3,119,240	78.3%	23.93	27.64
Total / weighted average	*755.7*	*3,119,240*	*89.7%*	*257.98*	*308.40*
Insured Businesses					
Property Insurance	611.2	425,830	95.0%	1,435.22	1,564.39
Motor Vehicle	22.2	425,830	95.0%	52.07	54.67
Total / weighted average	*633.3*	*425,830*	*95.0%*	*1,487.29*	*1,619.06*

Notes: The number of businesses is based on ATO data on the number of businesses operating in NSW multiplied by 50% based on the assumption, informed by desktop research, that the proportion of businesses operating from home is around one-half. That is, we have confined the analysis to businesses with premises outside the home. *The pre-GST and stamp duty cost per insured household or business (second last column) is calculated by dividing the ESL revenue estimates in the second column by the product of the fourth column (i.e. the comprehensiveness of the ESL tax base relative to what it would be with full insurance coverage) and the number of households or businesses in the third column. Then the tax inclusive cost is calculated by applying GST and stamp duty rates to the figures in the second last column.

[43] NSW Treasury (2025) 2025-2026 Budget Statement, p5-8, NSW Revenue (2025) Emergency Services Levy, Lateral Economics estimates.

[44] https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/insurance-duty/types-of-insurance. NB there is a small business exemption for commercial vehicle insurance and some other insurance types, but not for insurance of buildings or contents - see https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/insurance-duty/small-business-exemption

Box 2. How Apartment Owners Pay for Home and Contents Insurance

Australians living in strata-titled apartments or unit complexes typically pay for insurance in two distinct ways. Building insurance is arranged collectively through the owners' corporation (also called a body corporate) under a compulsory strata insurance policy. This covers the structure of the building—including walls, roofs, lifts, lobbies, car parks, and other common areas—as well as public liability for injuries or damage occurring in shared spaces. The cost of this policy is apportioned among all lot owners, usually according to their unit entitlements, and paid via regular strata fees.

However, strata insurance does not cover residents' personal belongings or internal fixtures within individual units. Therefore, owner-occupiers and tenants are responsible for purchasing contents insurance to protect personal possessions such as furniture, appliances, clothing, and electronics. Owners who rent out their units may instead choose landlord insurance to cover rental-related risks, such as tenant damage or lost rent.

This dual-layered system ensures comprehensive protection: common property is insured collectively, while individuals maintain control over coverage for their own belongings and internal upgrades. Owners are not required—and generally cannot obtain—separate building insurance for their specific apartment.

The results highlight the markedly different cost structures across these categories and point to significant differences in how the levy is shared between households and businesses.

For households, the levy collected through home and contents insurance is far higher per policy than for motor vehicles. While there are many more vehicle policies, most household ESL revenue arises from property insurance. The contrast in average costs—around twenty times higher for home insurance—shows that the financial burden for households is weighted toward property cover rather than vehicle cover.

Among businesses, the pattern is even more pronounced. Business property insurance accounts for almost all ESL revenue from the commercial sector, while motor vehicle insurance makes only a minor contribution. The average ESL charge per business property policy is roughly twenty times greater than that for household property insurance, indicating a heavier per-policy burden on businesses.

Comparing sectors, total household ESL revenue slightly exceeds that of businesses, but the relative burden per policyholder is much greater for businesses. On average, an insured business contributes about six times as much as an insured household, reflecting the concentration of the levy in high-value commercial property premiums. While data are unavailable to model this more precisely, we nonetheless expect ESL is a significant cost to small businesses in NSW, noting NSW Treasury's estimate that ESL increases business

premiums by 34%. That is, if a small business had to pay a contents insurance premium of $2,000, there would be an additional $680 of ESL. In both household and business sectors, property insurance dominates the funding base, with motor vehicles contributing only a small share.[45]

This analysis provides indicative insights into the distributional pattern of the current insurance-based ESL but not an exact measure of its incidence. The estimates rely on high-level data and generalised assumptions about coverage, asset values, and policy numbers. They therefore show the relative burden and proportionality, not the actual dollar impact on any given policyholder or sector.

5.1.2. NSW Government budgetary impacts

We have modelled the ESL reform as revenue-neutral in the sense that the revenue raised by the property levy will equal the revenue previously raised by ESL on insurance premiums. However, we expect ESL reform to have a positive impact on the state budget—albeit not in a way that is predictable year-to-year.

We expect there will be NSW budget savings as there will be fewer uninsured or under-insured households requiring government assistance for recovery after natural disasters. In particular, the NSW Government Disaster Relief Grants, aimed at low-income and under-insured households affected by natural disasters, paid out around $75 million in support from January 2022 to August 2025.[46] Furthermore, there will be less call on the NSW Government to provide funding to undertake preventive measures (e.g. the $525 million over four years Resilient Homes Program).[47]

5.2 Impact of Transitioning to a Broad-based Property Tax

5.2.1. Overview of modelling

In this section, we model a switch from the current ESL on insurance to a levy on unimproved land values. Revenue neutrality is imposed on our model in two respects:

1. Total revenue from the levy remains the same–i.e. instead of $1.52 billion being raised by the ESL on insurance of $1.39 billion and the associated stamp duty of over $130 million it is raised by the levy on unimproved land values; and
2. The relative load borne by households and businesses respectively remains the same under the old and new levies. This may require different levy rates on unimproved land

[45] The other insurance categories subject to the levy raise less than 1% of the insurance contribution to the ESL.
[46] https://www.nsw.gov.au/grants-and-funding/disaster-relief-grants
[47] NSW Government (2025) Budget Paper No. 1 - Budget Statement, p. 1-10.

values in the two sectors. Indeed, we estimate that higher levy rates will be required on non-residential land.

Note that assumption 2 differs from what NSW Treasury proposes in its options paper, whereby non-residential land owners will also need to cover that part of ESL revenue derived from motor vehicle insurance, including motor vehicles owned by households.[48] Under NSW Treasury's proposed treatment of motor vehicle insurance, we estimate the non-residential sector would end up paying approximately 10% more than they would under the proposal we modelled prior to NSW Treasury's options paper being released.[49]

Our calculation of the stamp duty associated with ESL is presented in Appendix A.

We undertake two types of modelling below, the first based on averages and the second for different scenarios to illustrate how different types of households are affected.

Average ad valorem rates–ESL

Based on the figures in Tables 2 and 3 above, we calculate *ad valorem* ESL rates for households, businesses, and motor vehicles, pre-tax and post-tax (Table 16). The 16% post-tax rate for residential property is close to the estimated average over 2017-18 to 2022-23 of 18% reported in the *Reforming the emerging services funding system discussion paper*.[50] The estimated effective levy rate for non-residential property at around 27% is significantly below the 34% average for commercial property insurance reported in the discussion paper. It is unclear why this is the case, as the discussion paper does not present the underlying data which would enable us to reconcile the difference.

Table 16. Effective ad valorem ESL rates, 2023-24

	Premiums, $m	ESL, $m	ESL rate	Post-tax*
Residential	5,238.2	694.5	13.3%	15.9%
Non-residential	2,760.9	611.2	22.1%	26.5%
Motor vehicles	6,730.8	83.3	1.2%	1.4%
Total	**14,729.8**	**1,389.0**	**9.4%**	**11.3%**

Notes: Post-tax accounts for the impact of the 10% GST and stamp duty of insurance of 9% generally and 5% for motor vehicles.

[48] NSW Treasury (2026) Emergency services funding reform–Options paper, p. 40.
[49] This is calculated by taking our estimate of ESL on motor vehicles paid by households of $61.2 million and dividing it by ESL paid on business insurance policies ($611.2 million).
[50] NSW Government (2024, p. 20).

Required ad valorem rates–Unimproved land values

Table 16 presents our estimates of the required *ad valorem* rates on unimproved land values to generate the same amount of revenue as is currently generated by the existing insurance levy. NSW households and businesses currently pay the following property-related charges:

1. Council rates levied on unimproved land value;
2. Other charges for local utilities such as water, sewerage and garbage collection. These may be charged separately from rates, and not on the basis of unimproved land value. (They are identified as sales of goods and services in ABS data); and
3. NSW Government Land Tax levied on unimproved land value in excess of $1.075 million.[51]

We compare the amount that needs to be raised via ESL with the above charges in Table 17.

Table 17. ESL compared with Council charges and NSW Government Land Tax, 2023-24

Item		Value	Units
A	ESL revenue	1,389	$ million
B	Council rates	5,822	$ million
C	Council sales of goods and services	6,290	$ million
D	NSW Government Land Tax	7,077	$ million
E	ESL as proportion of Council charges (E = A / (B+C))	11.5%	Percent
F	ESL as proportion of Council charges & Land Tax (F = A / (B+C+D))	7.2%	Percent

Source: ESL revenue figure is from the NSW Government while the other figures are from the ABS, specifically Taxation Revenue Australia and Government Finance Statistics, Australia.

If the replacement ESL were levied by local governments, at a rate of 0.06%, it would imply an impost on top of average council rates and charges of around 11.5%).[52] Relative to total council charges via rates notices and NSW Government Land Tax, it would amount to a 7.2% impost. Council rates (excluding explicit charges for water, sewerage and other items) are currently around 0.22% of unimproved land value.[53] The proportional impact on residential rates would be smaller than this, while the impact on non-residential rates would be greater than this–given ESL revenue is disproportionately raised from non-residential property and commercial motor vehicles, and hence the implied *ad valorem* rate on non-residential property is twice the

[51] Land tax thresholds and rates | Revenue NSW

[52] This is an indicative estimate because we are using aggregate data from the ABS that do not include a precise breakdown of what is covered in the sales of goods and services items. In some instances, it could include the sale of various items to households and businesses in addition to typical municipal services like water, sewerage and rubbish collection. For example, it could include the sale of food or beverages at some council facilities.

[53] The 0.22 cents in the dollar (i.e. 0.22%) estimate is based on total municipal rates in NSW in 2023-24 of $5.822 billion (sourced from ABS Taxation, Australia) and the estimated total value of land (excluding national parks, recreation areas, roads, waterways, etc.) of $2.70 trillion for the previous financial year, noting that rates are levied on the basis of past land values rather than estimates of land values each financial year (based on NSW Valuer-General Yearly Insights 2023-24, p. 19).

average. There is no available breakdown of total rates revenue by residential and non-residential categories for NSW, so we cannot at this stage estimate the proportional impacts on residential and non-residential rates.[54]

Table 18. Required ad valorem levy rates on unimproved land values to replace ESL

	Residential	Non-Residential	Total
Land value (2022-23), $b	2,104.73	594.1	2,698.81
ESL revenue to replace (2023-24), $m	755.7	633.3	1,389.0
Stamp duty revenue to replace (2023-24), $m	72.1	61.1	133.2
Total revenue to replace (2023-24), $m	827.8	694.4	1,522.2
Required average ad valorem rate	0.04%	0.12%	0.06%

Note: In calculating the ESL revenue to be replaced by levies on residential and non-residential land, we have calculated the figures as follows. ESL revenue related to the residential category comprises that levied on real residential property and contents insurance and personal motor vehicle insurance. ESL revenue related to the non-residential category comprises that levied on non-residential real property and contents insurance and commercial motor vehicle insurance.

5.2.2. Costs and Implications

There is limited data available to generate detailed analysis of the impacts on individual households of the transition from an insurance to a property based ESL. Nevertheless by making reasonable assumptions we can generate indicative outcomes by the type of insurance held by the household. Every household in NSW fits into one of these categories:

- home (building) insurance only
- home and contents insurance
- contents insurance only
- motor vehicle insurance only
- home and motor vehicle insurance
- home and contents and motor vehicle insurance
- contents and motor vehicle insurance
- no insurance.

A further complication is that removing the ESL from insurance has knock-on financial effects because currently the ESL is imposed on insurance and NSW stamp duty is then imposed

[54] The magnitude of the impacts relative to council rates suggests the NSW Government wish to consider raising at least part of the ESL via land tax which raised a substantially larger amount of over $7 billion in 2023-24.The impacts on households and businesses, and the implications for equity, would likely be significantly different depending on how the revenue-neutral switch was implemented. Land tax has a significant exemption threshold, and is disproportionately levied on larger property owners, which would have to have their land tax rates increased further. The opposition of large property owners to the policy may make it difficult to implement in practice. For the purposes of the modelling, we set these implementation issues aside and assume the ESL is implemented as an ad valorem levy on unimproved land values.

upon premiums which are then further subject to Commonwealth GST. By contrast, an *ad valorem* levy against the unimproved capital value of household properties would not attract further NSW stamp duty or GST. These are our assumptions to calculate the upshot:

- On average, households will face a $253 additional property tax, which will raise the necessary $827 million of ESL revenue to be raised from 3.266 million households. (This figure makes allowance for the need of the new property levy to replace not just the old ESL insurance levy, but the NSW stamp duty levied on top of it, additional to what is already being paid on the premium);[55] and
- $1,549 additional property tax on average for businesses with premises outside the home, based on $694 million of ESL revenue to be raised from around 448,200 businesses. This figure makes allowance for the need of the new property levy to replace not just the old ESL insurance levy, but the relevant proportion of NSW stamp duty levied on top of it.

Furthermore, to estimate the costs of some of the combinations of policies we rely on the following information. Canstar data [56] on average house and contents premiums provided information about the proportion of home and contents premiums should be attributed to building insurance as opposed to contents insurance. The following assumptions about these levels relative to combined home and contents premiums are:

- Home insurance only premium: 87% of home and contents insurance premium
- Contents insurance only premiums: 22% of home and contents insurance premium
- Home and contents insurance premium: 100%.[57]

This produces the breakdown set out in Table 11 below, which identifies specific classes of households or businesses and allows us to estimate net benefits from the new policy of moving the base on which the ESL is calculated from insurance premiums to the unimproved value of land. However, some households and benefits will not benefit from the policy change.. Thus for instance one can imagine some householders living in high value insured, freestanding houses on blocks with low unimproved capital values benefiting from the changes even though as a class on average, those in insured freestanding houses will pay a little more. One can envisage analogous anomalies in many of the categories in Table 19.

[55] The ESL reform options paper makes it clear that the new levy will need to recover the additional stamp duty, too. NSW Treasury (2026, p. 38) notes: "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."
[56] Canstar (2025) 'How much does home and contents insurance cost in NSW', https://www.canstar.com.au/home-insurance/compare/home-insurance-nsw
[57] Home insurance only and contents insurance do not sum to 100% of home and contents insurance . The home and contents insurance premium offers a small saving compared to taking policies out separately.

Table 19: Impact of Transition from ESL to Property Tax for property owners, $ per group member

Group	ESL (post-tax)	Property Tax	Saving/(Cost)
Households			
Average	308	253	55
Home insurance only	244	253	-9
Home and contents insurance	281	253	28
Motor vehicle insurance only	28	253	-226
Home & motor vehicle	272	253	19
Home & contents & 1 motor vehicle	309	253	55
No insurance	0	253	-253
Businesses			
Average	1,619	1,549	70
Property insurance only	1,564	1,549	15
Motor vehicle insurance only	55	1,549	-1,495
No insurance	0	1,549	-1,549

Note: The estimates in the 'Saving/(Cost)' column represent the net annual average impact on households and businesses of the transition–i.e. removing the ESL (post-tax) in the second column and replacing it with a broad-based property tax. Average insurance costs are expected to fall by the amount in the second column, while the average household or business with premises will then have to pay the additional property tax in the third column.

On average, households and businesses will save from a transition from an insurance-based levy to a property-tax-based levy because:

a) the burden of the levy is shared among more households and businesses (i.e. 100% compared with the 95-96% covered by insurance); and

b) the property tax will not be subject to GST and stamp duty, unlike the ESL levy on insurance. Given this, we have assumed that revenue neutrality requires the State Government to recover the lost stamp duty in some way.

Note that the average business ESL and property tax figures appear high and very likely reflect the positive skew in property values among businesses, with a small proportion of large businesses having very extensive and valuable property holdings and hence insurance premiums. The positive skew means the average values we have calculated are likely to be far higher than the median or typical values. Figures based on insurers' data are likely to give a better indication of the typical impacts on businesses, with ESL (post-tax) adding $766 to

commercial building and contents policies.[58] Unfortunately, a lack of data makes it difficult to say more. However, if we have underestimated the extent of self-insurance, bringing them into the ESL net would raise more emergency services funding from previously self-insured businesses than expected. And this would reduce the amount that needs to be raised from households and smaller businesses than we estimate in this report.

There are no detailed individual data that would allow us to estimate anything more than the average impacts for households with different types of insurance.

Some households may be worse off under the policy change. Currently, around 4.5% of homeowners (or their tenants) do not have building insurance and therefore do not contribute to funding emergency services. These households effectively receive the benefits without paying for them. Under the new policy, they would need to pay the revised levy based on their property's land value. This affects roughly 147,000 households.

In addition, our estimates in Table 19 show that households without contents insurance, approximately 35.4% of all households, or 1.15 million, could be slightly worse off on average (around $9 per year), particularly if they also lack motor vehicle insurance. However, this average obscures significant variation: some households would face larger losses, while others could shift from being modestly worse off to slightly better off, although any gains are likely to be small.

After the change, the greatest ESL contributions will come from those households with the highest land valuations. There will be a substantial correlation between those paying the most and the least under the existing and proposed regimes which will help make the change manageable. Indeed, given that those households that live in uninsured properties will be disproportionately lower-income households, the broad-based property levy to replace ESL could be designed with some progressivity, so the most disadvantaged households are largely unaffected. We have not modelled this in this report, but it may be a useful extension of our analysis.

However there will be differences, particularly those relating to the land intensity of different types of dwellings. Land value generally comprises a substantial share of the total value of free standing houses (over 40 percent and much higher in capital cities). It is somewhat less for semi-detached townhouses (around 25 percent) and substantially less for blocks of flats (around 15 percent).[59] We lack the data to model this precisely, so instead we provide some stylised examples to illustrate the likely differences (Table 20). In the illustrative calculations, we

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[58] https://insurancecouncil.com.au/wp-content/uploads/2024/06/240603-NSW-insurance-customers-bear-heavy-burden-of-ESL.pdf

[59] See https://www.rba.gov.au/publications/rdp/2018/2018-03/decomposing-property-values-into-dwelling-structure-and-land.html

assume all else is equal other than the land value share of the property value and hence the property tax payable.

Table 20. Impact of switch from insurance-based to property-based ESL by property type

		House	Townhouse	Apartment	Average	Notes
A	Property value	$857,300	$857,300	$857,300	$857,300	Cotality estimate of median property price in Australia at the end of September 2025
B	Land value as % of value	60%	40%	25%	50%	Assumptions based on desktop research
C	Land value	$514,380	$342,920	$214,325	$428,650	C = A x B
D	ESL, post-tax (Home & contents)	$281	$281	$281	$281	Consistent with Table 19
E	Revenue-neutral property tax	$304	$203	$127	$253	Average consistent with Table 19 above. The values for houses, townhouses and apartments are calculated using the ratios of the land to value ratios of the different housing types to the average (i.e. 60%/50% x $253 = $304 for houses)
F	Saving	-$23	$78	$154	$28	F = D - E

Note: We have assumed that the value of the property is the same across the different classes. This is not a realistic assumption, but is made to allow the table to identify the impact of the land-to-value ratio on the savings from ESL reform.

In general then, switching to a land-value base can be expected to benefit strata dwellings much more than free standing houses. It is likely this will align payments more closely with the underlying value of property holdings and the "capacity-to-pay" principle.

The insurance contribution for ESL is generally recovered by insurance companies from policies on a largely *ad valorem* basis. The equity issue is more about recovering from a wider tax base as benefits from the ESL accrue to the general population, not just those carrying insurance.

Overall, the reform broadens the base and improves equity by aligning contributions with property ownership rather than insurance uptake. At least according to our analysis, it lowers costs for most insured participants, eliminates the implicit penalty for insuring, and ensures that all property owners contribute fairly to the funding of emergency services in NSW.

5.2.3. Efficiency and economic welfare gains

We compared the relative economic efficiency of different ways of raising the money which can be thought of as the extent to which a given amount of revenue raised changes economic decision making in the economy. This is the economists' concept of the "excess burden of taxation". Marginal and average excess burden estimates produced by KPMG-Econtech for the

Henry Tax Review, which were presented in Figure 1 above.[60] As noted above, the average excess burden (AEB) measures the total deadweight loss per dollar of revenue raised by a tax, while the marginal excess burden (MEB) measures the additional deadweight loss by raising one more dollar of tax revenue. The KPMG-Econtech estimate of a 67 cents in the dollar MEB for insurance taxes appears too high in our view, especially given that over 95% of homeowners have home insurance (although not necessarily contents insurance). This is likely to reflect banks' insistence on home insurance for properties they finance. Victoria University economists Jason Nassios and James Giesecke have produced a more recent and significantly lower estimate of the MEB of insurance duties of 38.2 cents in the dollar.[61] We used this lower MEB estimate in our modelling in preference to the KPMG-Econtech estimates. We model the switch from insurance taxes to broad-based land taxes, which yields a clear reduction in the excess burden of approximately 30 cents for every dollar raised (i.e. the 38.2 cents MEB for insurance duties less the 8 cents MEB for land taxes).

[60] KMPG Econtech (2010) CGE Analysis of the Current Australian Tax System, Final report, p. 5.
[61] Nassios, J. and Giesecke, J. (2025) "Inefficient at any level: a comparative efficiency argument for elimination of property transfer duties and insurance taxes", Applied Economics, Published online: 18 Jul 2025, https://doi.org/10.1080/00036846.2025.2507977.

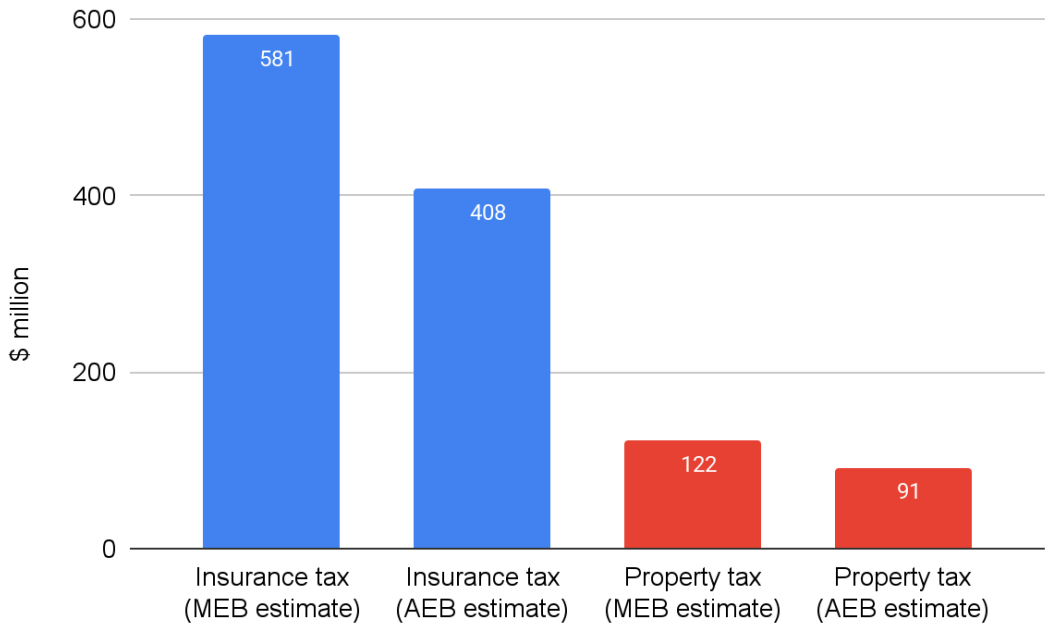
Table 21. Marginal and average excess burden estimates used in the analysis

	Marginal Excess Burden	Average Excess Burden
	%	%
Property taxes	38.2	26.8
Land taxes	8.0	6.0

Source: Nassios and Giesecke (2025) for insurance tax MEB estimate. KMPG Econtech (2010) for property tax estimates. Note: The AEB for insurance taxes was calculated by assuming the same ratio of AEB to MEB as estimated by KPMG Econtech-i.e. 47c/67c = 70.1%, so that AEB = 70.1% x 38.2 = 26.8c.

Figure 8 below shows how the current ESL, charged on insurance premiums, creates a higher burden than the same revenue raised through a property levy.[62] The values in the figure are calculated by multiplying the figures in Table 21 above by the revenue raised by ESL and stamp duty on ESL (approximately $1.52 billion).

Figure 8. Comparable excess burden by tax category, $ million, annual



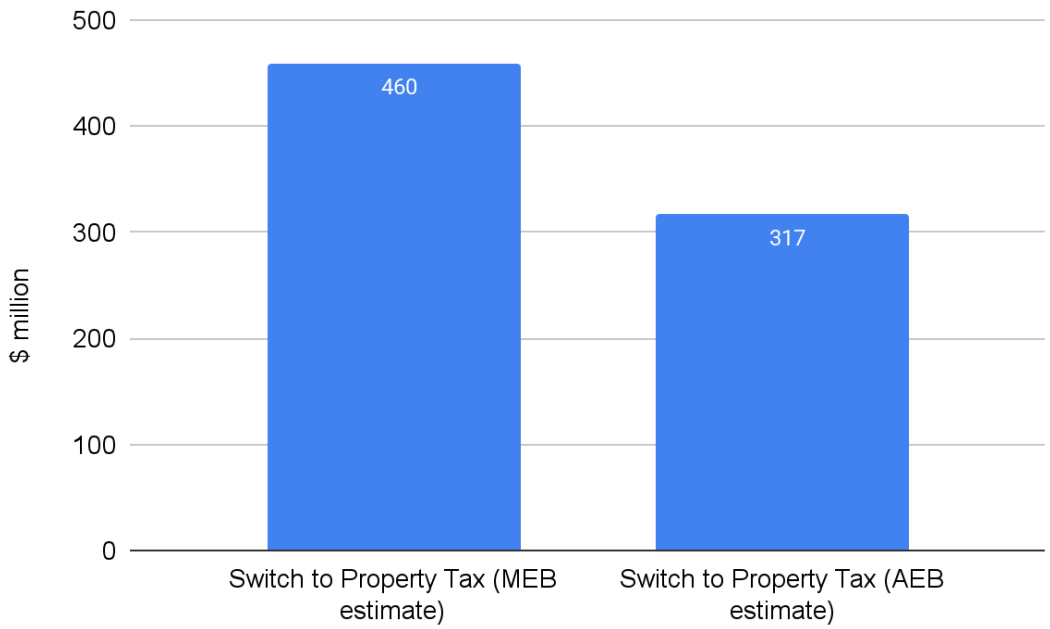
Source: Lateral Economics analysis.

Based on FY2024 insurance contributions to the ESL, the excess burden of the ESL is estimated to be between $408 million and $581 million, depending on whether the AEB or MEB is used to calculate it. This corresponds to around 0.05-0.07%of NSW Gross State Product (GSP), respectively.[63] As a counterfactual, if the required revenue had been raised from

[62] The efficiency analysis is constrained by data and modelling gaps. Insurance demand elasticities for NSW are not well measured and would require insurer-level data matched with ABS household and business surveys.
[63] In 2023-24, NSW GSP was $820.8 billion according to the ABS (Australian National Accounts: State Accounts).

property taxes, the marginal excess burden is estimated to be over $120 million and the average excess burden just over $90 million. Estimates of the improvement in economic welfare, essentially a reduction in the excess burden, are summarised in Figure 9. This shows the gain from moving the revenue raising burden from an insurance levy to a property tax. We expect the ultimate welfare impact to lie somewhere between the estimates based on the AEB and MEB, and hence these estimates can be taken as providing a range for the estimated impacts.

Figure 9. Economic welfare improvement by switching from the ESL to a broad-based property tax, $ million, annual



Source: Lateral Economics analysis.

A revenue-neutral switch to a broad-based property tax produces a large economic welfare improvement – 79% on a marginal basis and 78% on an average basis. In effect, over four out of every five dollars of excess burden carried by the insurance contribution to the ESL is removed when that contribution amount is recovered by some form of property tax.

The switch from ESL to a broad-based property tax can deliver economic welfare gains of $97 to $141 per household (Table 22).

Table 22. Welfare impacts of the switch from ESL to a broad-based property tax per household

	Basis of calculation	
	Average excess burden	Marginal excess burden
Aggregate welfare impacts		
Welfare loss from ESL ($ million)	408	581
Welfare loss from equivalent property tax ($ million)	91	122
Difference	317	460
Per household welfare impacts		
Welfare loss from ESL ($/household)	125	178
Welfare loss from equivalent property tax ($/household)	28	37
Difference ($/household)	97	141

5.3. Other revenue impacts

In our analysis we have assumed that additional property tax (or an *ad valorem* levy on property tax) would replace revenue lost by removing ESL on insurance, comprising both the ESL revenue and related stamp duty. However, there are second-order impacts on NSW Government revenue that mean the impact of the policy may not be entirely revenue neutral. These second-order impacts are:

1. NSW's share of reduced GST revenue; and
2. Additional tax revenue flowing from any Gross State Product (GSP) uplift associated with the reduction in excess burden modelled in section 4.2.3.

We expect the switch from levying insurance to property to result in a reduction in GST revenue of a maximum around $139 million (refer to Table A1 in Appendix 1).[64] However, GST is a federal tax and so it is a reduction in *Commonwealth* tax revenue. That loss of revenue is then shared with the states as lower payments to them. However, based on 2023-24 figures NSW receives only 29% of Commonwealth GST payments. This means that the reduction in GST receipts in NSW of $139 million would result in a reduction of only 29% of that figure in NSW Government receipts or approximately $40 million.[65] We also model an increase in NSW Government tax revenue flowing from the reduction in excess burden previously estimated in Table 23. Note that we are implicitly assuming that all the benefit from the reduction of the excess burden accrues within NSW rather than spilling over to other states and territories. We

[64] We note further that it will be slightly less than this because of GST on new or expanded insurance policies that follow from lower insurance costs. However we have ignored such second-order impacts in the modelling as we expect them to be small.

[65] Commonwealth Grants Commission (2024) Occasional Paper No.11: GST distribution to states and territories in 2024–25, p. 3.

use both our excess burden estimates, using both the AEB and MEB estimates for different taxes, to calculate the GSP and revenue impacts. The analysis reveals that the two second-order impacts largely offset each other and there is only a very small impact on the NSW budget ranging from -$7 million to -$17 million annually. In other words, these are second-order impacts and practically irrelevant for the policy choice regarding the appropriate way to raise ESL revenue.

Table 23. Other revenue impacts

Item	Value	Notes
GST revenue impact		
Change in GST revenue, $m	-138.9	Refer Table A1 in Appendix A
NSW share of GST pool	29%	GST distribution to NSW by CGC in 2023-24
Change in GST for NSW, $m	-40.3	Calculated as the reduction in GST revenue as a result of the loss of 48% of the GST revenue (assuming 52% is still raised as consumption spending is reallocated) multiplied by NSW's share of the GST pool
Revenue gain from GSP uplift		
AEB basis		
Welfare / GSP gain, $m	316.6	Conservative welfare gain based on AEB estimates; refer to Table 22
NSW tax-to-GSP ratio	6.2%	Based on ABS Taxation, Australia and State Accounts data for 2023-24
GST flowing to NSW (% of GDP)	1.0%	Based on ABS Taxation, Australia and State Accounts data for 2023-24 and Australian National Accounts
Revenue gain, $m	22.8	GSP gain x (NSW tax-to-GSP ratio + GST flowing to NSW)
MEB basis		
Welfare / GSP gain, $m	459.7	Welfare gain based on MEB estimates; refer to Table 22
NSW tax-to-GSP ratio	6.2%	Based on ABS Taxation, Australia and State Accounts data for 2023-24
GST flowing to NSW (% of GDP)	1.0%	Based on ABS Taxation, Australia and State Accounts data for 2023-24 and Australian National Accounts
Revenue gain, $m	33.1	GSP gain x tax-to-GSP ratio
Net NSW budget impact		
AEB basis, $m	-17.5	Sum of change in GSP for NSW and revenue gain from GSP uplift (where AEB estimate used)
MEB basis, $m	-7.2	Sum of change in GSP for NSW and revenue gain from GSP uplift (where MEB estimate used)

5.4 Alternative Revenue Sources and Taxation Options

Reform of the NSW Emergency Services Levy (ESL) necessitates careful consideration of alternative funding bases. Each option has different implications for equity, efficiency, simplicity, and sustainability. The first table sets out the **pros and cons** of four potential bases being considered by the NSW Government: capital improved values, unimproved land values, gross rental values, and fixed charges. The second table then provides a comparative **ranking against key taxation principles**, to help identify which model may best align with recognised criteria in the Australian tax context.

Table 24: Pros and Cons of Alternative ESL Bases

Option	Pros	Cons
Capital Improved Values (CIV)	• Reflects full market value of land and improvements. • More aligned with ability-to-pay. • Broad, stable revenue base. • Precedent in Victoria.	• Can burden asset-rich but income-poor households. • Requires robust valuations, risk of disputes. • Sensitive to property market fluctuations.
Unimproved Land Values (ULV)	• Already used in NSW rates and land tax. • Encourages development, as improvements are not taxed. • Relatively stable valuations. • Simple to administer.	• Excludes improvements, creating a weaker link to capacity-to-pay. • May be inequitable where land value is high but dwelling modest. • Weak alignment with service demand.
Gross Rental Values (GRV)	• Links to income potential of property. • Captures benefits of location and infrastructure. • Progressive for high-yield commercial assets.	• Complex—rental data often unavailable or contested. • Volatile in weak rental markets. • Cost may be passed through to tenants, distorting rents.
Fixed Charges Model	• Simple, transparent, predictable. • Low administrative burden.	• Highly regressive—same charge regardless of property value. • May be politically unpopular. • Risk of insufficient revenue unless charge is high.

Table 25: Ranking Against Key Evaluation Criteria

Option	Equity	Efficiency	Simplicity	Sustainability	Overall
Capital Improved Values (CIV)	High – progressive, aligned with capacity-to-pay	Medium – some distortions from discouraging capital improvements	Medium – requires regular valuations	High – broad and stable base	Strong candidate, but may require concessions for asset-rich, income poor households
Unimproved Land Values (ULV)	Medium – less progressive, excludes improvements	High – encourages development	High – simple and familiar	Medium – narrower than CIV	Practical, but weaker link to service demand
Gross Rental Values (GRV)	Medium – can be progressive for commercial	Medium – risk of rent pass-through	Low – complex, data issues	Medium – volatile with rental markets	Less suitable, given complexity and volatility
Fixed Charges Model	Low – regressive	High – minimal behavioural distortions	Very High – simple, transparent	Low – risks revenue shortfall	Weakest option; simplicity offset by inequity

A **property-based levy using capital improved values (CIV)** appears most equitable in theory. It represents the broadest tax base, aligns contributions with capacity-to-pay, and is used in Victoria. However, basing the levy on CIV would require a whole new layer of NSW's tax infrastructure to be built requiring up to date capital improved valuations for most properties.

By contrast **unimproved land values (ULV)** offer a simpler and more immediately practical pathway. NSW already has a fully operational system of unimproved capital valuation for existing rates and land tax assessments. This framework means lower transition costs, less political disruption, fewer disputes, and faster implementation. Though ULV is somewhat more weakly tied to wealth and household income, it remains the more workable option for ESL reform.

Gross rental values (GRV) and fixed charges are significantly less attractive as tax bases. GRV is complex and unstable in practice, while fixed charges are inequitable and politically challenging.

Given all this, we think ULV is the obvious choice for an alternative base on which to base the ESL.

5.5. Overview of equity impacts

A switch in the tax base for ESL from insurance premiums to ULV will have positive equity implications. These include:

- Households in areas with already high insurance premiums (e.g. Lismore) due to the perceived risks of natural disasters will save much more than the average household; and
- households living in apartments and townhouses, who will disproportionately be renting and on lower incomes, will benefit significantly relevant to households in detached houses.

5.5.1. Households in areas with high insurance premiums

Where the risk of natural disasters like floods is higher - as it is for instance in Lismore - so too are insurance premiums as one would expect from a market based system. Many residents and businesses report that premiums have become so expensive in such areas that some properties are effectively uninsurable. Others remain insured, but at significantly higher premiums. Other areas of NSW, while having lower catastrophe risk, nonetheless have very high insurance premiums relative to the average. For example, insurance premiums are higher in parts of Western Sydney, partly due to higher crime rates. Parramatta has more than double the national average home insurance premium.[66] We were unable to find data on average premiums in Lismore, but reported insurance premiums from North Queensland suggest average premiums are much higher, around 165%, of the national average.[67]

Based on our desktop review, we conclude that a typical uplift to insurance premiums in high-risk areas ranges from 65% to 100%. For the purposes of the case study in Table 9 we assumed the uplift was 75%, and this meant a total ESL cost (inclusive of additional GST and stamp duty) of $740 for a household with home and contents insurance. Under NSW Treasury's option C, the household in the disaster-affected area in our case study would save $565 (refer to Table 9), while based on the constant *ad valorem* rate we model in this section, they would save $487.[68]

Considering that residents of high-risk areas typically are on lower incomes, including many pensioners and welfare recipients, the ESL tax base switch has positive equity implications. For example Lismore's median household weekly income is notably lower than the NSW average, at $1,202 at the time of the 2021 Census, which was 34% lower than the NSW average of $1,829.[69] Further, governments are increasingly being drawn into improving the affordability of

[66] https://www.realestate.com.au/news/homeowners-hit-with-4k-hidden-cost-in-parts-of-sydney/
[67] https://www.canstar.com.au/finance-news/australians-paying-more-for-home-insurance/
[68] This is calculated by subtracting the average required household property tax of $253 (refer to Table 19) from the estimated ESL cost in the Table 9 case study of $740: $740 - $253 = $487.
[69] https://abs.gov.au/census/find-census-data/quickstats/2021/SED10045

insurance in high risk areas.[70] Levying the ESL against a broader, more rational base would make an important contribution to this objective.

5.5.2. Households living in apartments and townhouses

Our analysis of the impact of the proposed policy change by dwelling type revealed that households living in apartments or townhouses are, on average, significant beneficiaries of the proposed policy change (refer to Table 20). This too has positive equity implications because these residences are, on average, of lower value than free standing houses and so one would expect that, on average, owner occupiers of these properties would have lower income and wealth than owner occupiers of freestanding houses. Further renters who on average have substantially less income and wealth than owner occupiers live disproportionately in apartments and townhouses (Table 26).

Table 26. Dwelling type by ownership category, Australia, 2021

Dwelling type	Owned	Rented	Other tenure types
Separate house	76.7%	21.7%	1.6%
Semi-detached, row or terrace house, townhouse etc. with one storey	45.2%	48.7%	6.2%
Semi-detached, row or terrace house, townhouse etc. with two or more storeys	50.0%	48.3%	1.7%
Flat or apartment in a one or two storey block	30.0%	66.4%	3.6%
Flat or apartment in a three storey block	34.8%	63.1%	2.1%
Flat or apartment in a four to eight storey block	37.6%	60.1%	2.3%
Flat or apartment in a nine or more storey block	33.1%	65.1%	1.8%
Flat or apartment attached to a house	41.6%	50.6%	7.8%
Caravan	74.9%	21.7%	3.3%
Cabin, houseboat	55.2%	40.8%	3.9%
Improvised home, tent, sleepers out	62.1%	25.6%	12.3%
House or flat attached to a shop, office, etc.	33.4%	61.4%	5.2%
Not stated	43.1%	47.5%	9.4%
Total	66.7%	31.2%	2.1%

Source: ABS 2021 Census data.

Renters have lower average incomes than home owners, and the poorest households are overwhelmingly renting. RBA research based on ABS microdata and HILDA has revealed that:

[70] For example, the Commonwealth has set up the Australian Reinsurance Pool Corporation to reduce the cost of insurance in Northern Australia and the Tasmanian Government intends to set up a state-owned insurance business, TasInsure.

> "Renter households tend to be younger, have lower incomes and less wealth than owner-occupiers. …Renter households are concentrated in the lower end of the net wealth distribution (i.e. wealth after subtracting debt and not including wealth held in superannuation accounts)...Nearly 90 per cent of all households in the lowest wealth quintile were renters in 2019/20. This in part reflects that renters tend to be younger than other types of households and so have had less opportunity to accumulate savings over time. However, renters also tend to have lower wealth compared with owner-occupier households even after controlling for age and income."[71]

For these reasons we expect that changing the base on which ESL is levied from insurance premiums to ULV would be strongly equity enhancing.

[71] https://www.rba.gov.au/publications/bulletin/2023/mar/renters-rent-inflation-and-renter-stress.html

6. Conclusions and Recommendations

6.1 Summary of Key Findings

The current insurance-based ESL disproportionately burdens insured households and businesses, inflates premiums, and contributes to a self-reinforcing spiral of underinsurance. This is particularly pronounced in high risk and lower income areas. By contrast, a property levy is more broadly based and so more efficient as a tax base, it is also fairer because it aligns contributions more closely with the universal benefits of emergency services and with capacity to pay.

Lateral Economics' modelling shows how shifting the levy from insurance to property reduces by nearly 80% the adverse economic impacts of the ESL. Removing the ESL on insurance would save the average household around $308 per year for insured households with positive implications for affordability and insurance uptake. This would be mostly offset by an increase in property tax, but the average household would be $55 better off. Furthermore, because raising the ESL through insurance is so inefficient, the switch from an insurance to a property based levy would generate benefits in the NSW economy of around $140 per household. Benefits would flow disproportionately to households in areas suffering high-insurance premiums and those with lower wealth and incomes.

However, the significant economic benefits from an improved ESL may not be obvious to those currently benefiting from the existing arrangements who would be disadvantaged by a fairer, broader, and more efficient tax base. Further analysis using insurer policy data would enable a better understanding of who would save and who would pay more.

These findings confirm that reforming the ESL is fiscally responsible, economically, and socially beneficial. The current system undermines affordability, distorts insurance markets, and weakens community resilience; a properly designed and supported property-based levy addresses these shortcomings and strengthens the long-term sustainability of emergency services funding.

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Appendix A. Additional information

Table A1. Estimation of stamp duty associated with ESL, 2023-24

	ESL Revenue Estimate,$m	GST at 10%, $m	ESL + GST, $m	Stamp duty, %	Stamp duty, $m
Insured Households					
Home and Contents*	694.5	69.5	764.0	9%	68.8
Motor Vehicle	61.2	6.1	67.3	5%	3.4
Sub-total	*755.7*	*75.6*	*831.2*		*72.1*
Insured Businesses					
Property Insurance	611.2	61.1	672.3	9%	60.5
Motor Vehicle	22.2	2.2	24.4	2.5%	0.6
Sub-total	*633.3*	*63.3*	*696.7*		*61.1*
Total	**1,389.0**	**138.9**	**1,527.9**		**133.2**

Note: The stamp duty rates in column 5 are from https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/insurance-duty/types-of-insurance. The rate for commercial motor vehicles was halved based on an assumption that half of the motor vehicles are owned by small businesses that would receive an exemption; see https://www.revenue.nsw.gov.au/taxes-duties-levies-royalties/insurance-duty/small-business-exemption.

Appendix B. NSW Government reform options

Figure B1. *Ad valorem* equivalent rates for proposed ESL levies–Option A

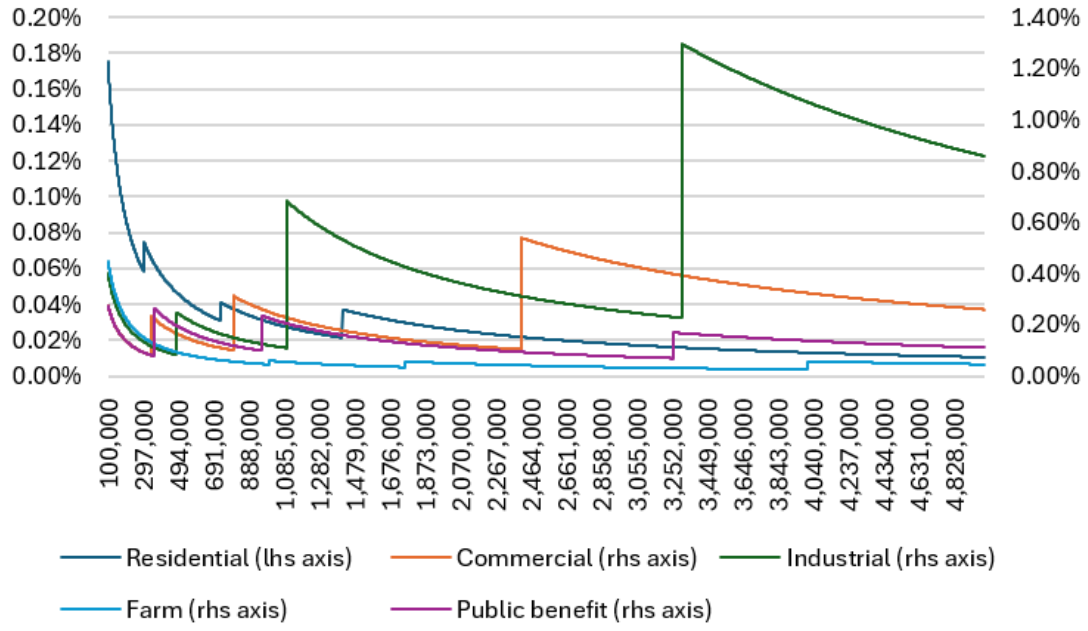

Figure B2. *Ad valorem* equivalent rates for proposed ESL levies–Option B

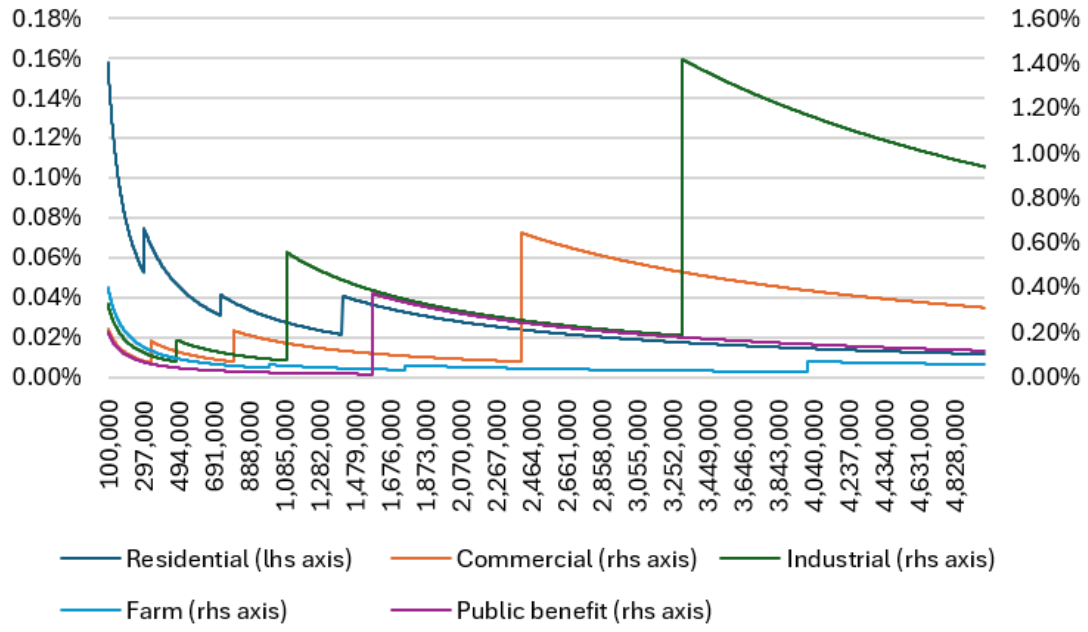

Figure B3. *Ad valorem* equivalent rates for proposed ESL levies–Option C

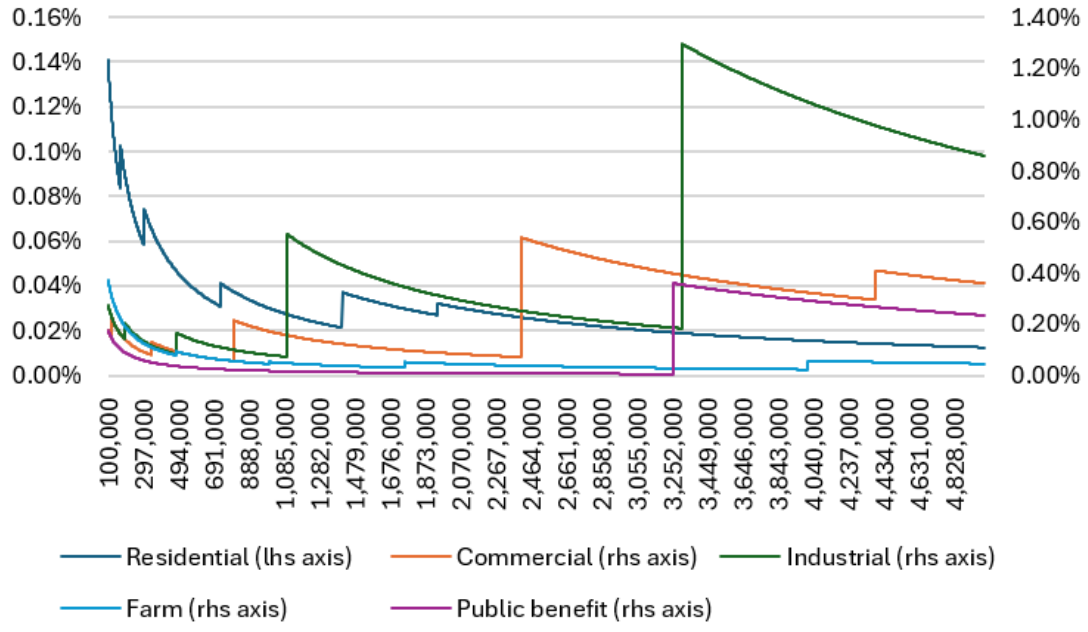

Figure B4. *Ad valorem* equivalent rates for proposed ESL levies–Option D

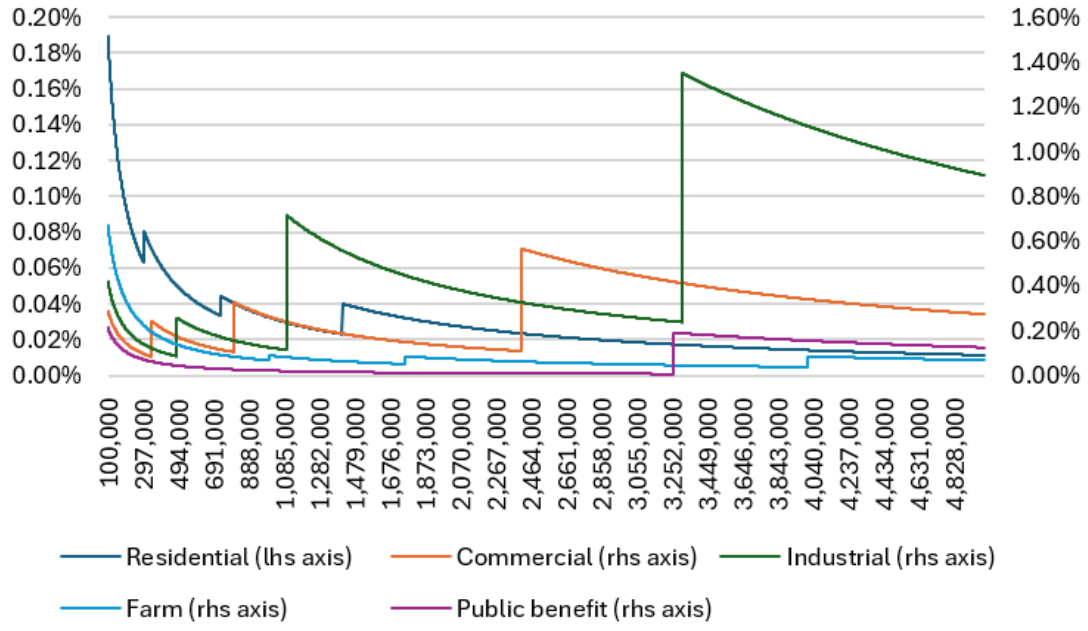

Figure B5. *Ad valorem* equivalent rates for proposed ESL levies–Option D (with discount)

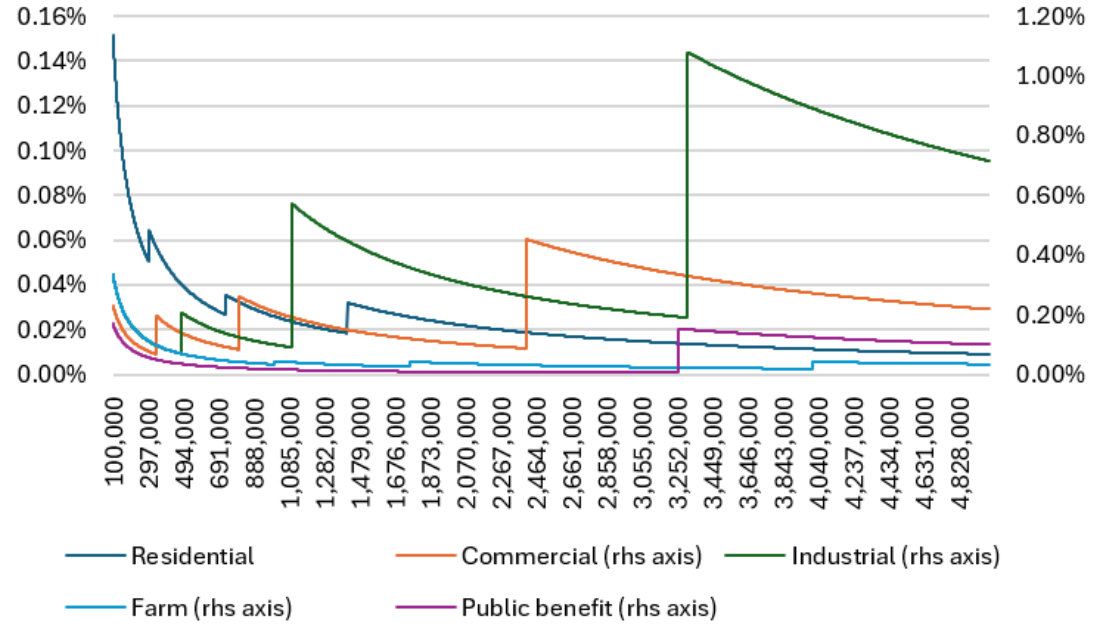

Figure B6. *Ad valorem* equivalent rates for proposed ESL levies–Option E