Submission by

BusinessNZ

GROWING PROSPERITY AND POTENTIAL

to

Fire and Emergency NZ (FENZ)

on the

FENZ 2026-2029 Levy Consultation

May 2024

FIRE AND EMERGENCY NZ (FENZ) 2026-29 LEVY CONSULTATION SUBMISSION BY BUSINESSNZ[1]

1.0 SUMMARY

1.1 BusinessNZ welcomes the opportunity to make a submission on the Fire and Emergency 2026-2029 Levy Consultation ("the Consultation Paper").

1.2 In summary, it is noted that the Consultation Paper proposes an increase in levies (in aggregate) of 5.2% to cover increased FENZ costs, compared to the amount that will be received on 1 July 2024.

1.3 The following changes in levy rates are proposed in the Consultation Paper:

- **An increased levy rate for motor vehicles** - a universal flat levy rate of $40.12 (excluding GST) to reflect the cost of attending motor vehicle related incidents more fairly.
- **A reduced levy rate on residential and personal property** to balance the increase in the motor vehicle levy.
- **An increased cap on the residential and personal property levy** to reflect shifting economic conditions and improve equity.
- **A slightly lower levy on non-residential property** due to the motor vehicle levy changes and wider economic conditions. It should be noted that there will continue to be no cap on non-residential property levies and the levy will be based on sum insured rather than indemnity value).

1.4 BusinessNZ remains concerned in respect to the funding of FENZ on two broad levels. Firstly, the continuing cost blow-outs over recent years (with the proposed increase in the levy yet another example). Second, we remain concerned that the current funding model (largely funded via levies on sum insured for fire) is a flawed model and needs to be fundamentally revamped as recommended below.

1.5 A paper by the NZ Taxpayers Union[2] - *"Up in Smoke"* (March 2024) provides a sobering picture of both expenditure and revenue increases for the FENZ over recent years and questions whether the reforms have resulted in any efficiency gains at all with costs continuing to blow-out.

> *"It is possible that the very large cash balance ($201.8 million on 30 June 2023) and the consistent underestimate of levy revenue has led to a*

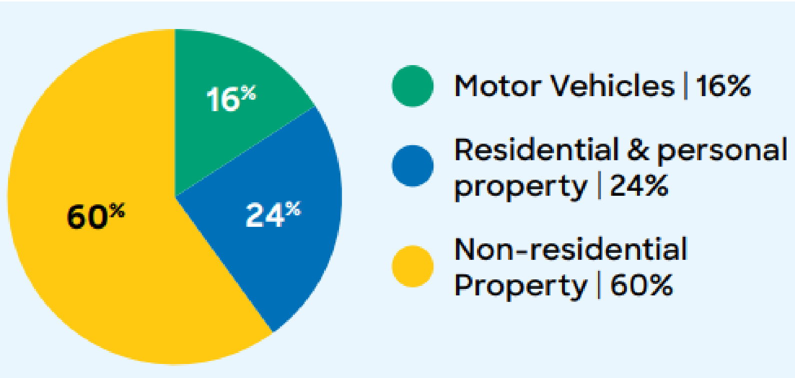
[1] Background information on BusinessNZ is attached as Appendix 1.

[2] https://assets.nationbuilder.com/taxpayers/pages/2974/attachments/original/1712537417/240301_cp_report_upinsmoke.pdf?1712537417

degree of complacency regarding cost-control and efficiencies. Even the very substantial settlement of the Collective Employment Agreement with the New Zealand Professional Firefighters Union in December 2022 appears to have failed to shock the Board and management team into cost control mode. Their possibly automatic, if not conditioned, response was to seek remedy through increasing revenue by increasing the levy rate".

1.6 The proposed 5.2% increase in the Consultation Paper comes hard on the heels of the already 12.8% increase which will take effect from 1 July this year.

1.7 Page 19 of the Consultation Paper outlines the allocation of net costs across the three types of property, based on the projected costs of activity, as follows:



1.8 Motor Vehicles will contribute, on average, around $146 million per annum to FENZ from 2026/27 to 2028/29.

1.9 Residential and personal property owners will contribute, on average, around $215 million per annum from 2026/27 to 2028/29.

1.10 Meanwhile, the bulk of the cost of FENZ will continue be funded by non-residential property owners who will contribute, on aggregate, around $535 million per annum.

1.11 It is understood that around 97% of funding for FENZ comes from the above levy payers (generally based on sum insured), with a very small proportion coming from other sources, including the Government, which it is understood contributes a paltry $10 million per annum approximately. Non-levy payers, but users of the fire service effectively pay nothing. Presumably, the cost associated with non-levy payers are cross subsidised by current levy payers, most notably non-residential property owners.

1.12 The table below outlines Levy Contributions and FENZ call outs for 2021/22.[3]

Levy by Policy Type – Financial Year 2021/22		
Policy Type	**FENZ Levy Revenue (%)**	**FENZ call outs**
<u>Property type</u>		
Non-Residential Property	59%	5.5% structured fire
Residential Property (Buildings and Content)	35%	0.8% hazardous substances
Motor Vehicle	4%	10.8% motor vehicle collisions
Marine Cargo	2%	
		10.9% other fires
		5.2% vegetation fires
		34% false alarms
		16.2% medical emergencies
		16.6% other (rescues, evacuations, etc)

1.13 It highlights that 16.2% of FENZ responses were for medical emergencies, yet the medical system does not fund the service. Collectively, 66.8% of responses (medical emergencies, rescues and evacuations, and false alarms) fall outside of FENZ primary functions.

1.14 The cost of delivering these additional services is largely being funded by levies on fire-insured assets, highlighting the funding gaps of the current system.

1.15 Appendix 1: (P.34) of the Consultation Paper outlines forecast costs for each function required by the Act, 2026-2029, which again provides limited, but useful, analysis that current funding arrangements are far from ideal.

[3] Adapted from FENZ Annual Report 2021/22, p.9.

Forecast costs for each function required by the Act, 2026-2029

($ million excl. GST)	Direct costs of response	Corporate overheads	Readiness overhead	Non-levy (revenue) / costs	Total costs
Fire Response - Structural	119	75	376	(1)	569
Fire Response - Vegetation	157	100	498	(5)	751
Fire Response - Other	109	69	346	(3)	521
Motor Vehicle Response	70	44	221	(2)	333
Natural Disaster Response	7	5	0	(0)	12
Urban Search and Rescue	16	10	52	(1)	78
Non-transport Related Rescue	2	1	6	(0)	9
Medical Response	36	23	0	(1)	58
Other Responses	29	18	0	(1)	47
Hazardous Substances	16	10	51	(1)	77
Advice on Hazardous Substances	1	1	0	(0)	2
Fire Prevention	78	50	0	0	128
Education	55	35	0	(1)	88
Monitor and Enforcement	8	5	0	(0)	13
Advice on Building Design	6	4	0	(0)	10
Total	**709**	**452**	**1,550**	**(17)**	**2,694**

1.16 On the positive side of the ledger, BusinessNZ is generally supportive of raising the contributions from motor vehicle owners given the current revenue generated from motor vehicle owners compared to the number of callouts to motor vehicle incidents.

1.17 The intent to rebalance the levy so that the motor vehicle account collects a fairer share of FENZ is appropriate. Moreover, including third party insurance is also a positive move in this respect. Given that the cost of attending a vehicle event is likely to be relatively consistent, although there will be complex cases which take up considerable resources of FENZ, all things considered, a flat rate charge across motor vehicle owners is likely to be economically efficient and will reduce transaction costs.

1.18 Notwithstanding the above, BusinessNZ considers that it would still be useful to confirm whether it is appropriate to simply have one flat rate per vehicle, or whether vehicle size (and possibly other factors such as loadings) should be factored into costings. In this respect simplicity and transaction costs would need to be factored in if it were decided to have more than one flat levy based on known risk factors.

1.19 Similarly, in respect to residential property, an increase in the cap as well as for personal property is long overdue. This will mean that the costs will be more fairly apportioned between residential property insurers. There will likely be some debate as to whether the proposed cap on residential property (currently capped at $100,000 but proposed to increase to $625,000 and personal property to be increased from $20,000 to $75,000) is too high or too low, but given that the costs imposed on FENZ should be relatively similar, irrespective of the sum insured value of a residential property, having a cap is justified given that sum insured will generally have little or no relationship to the cost imposed of FENZ in attending residential fires. In other words, like motor vehicle incidents, the cost per case is likely to be similar in attending residential fires, taking into account the obvious issues of time (e.g. urban verses rural fires, single versus two story houses etc).

1.20 Notwithstanding general support for increasing the residential cap, it should be noted that this will likely increase the administration costs for insurers who will still be required to collect the FENZ levy, particularly in respect to multi-unit and mixed-use buildings.

1.21 BusinessNZ's main concern is with the proposed funding proposals is that the non-residential property sector will continue to cross-subsidise many other sectors of the community, with levy costs-imposed on the sector unrelated to the broader costs associated with the provision of FENZ services (e.g. to non-levy payers and essentially free-riders). There is no cap on the amount that can be charged to the non-residential property sector. Moreover, given that non-residential property owners currently bear the bulk of costs associated with FENZ (around 60%), it can be presumed that they are clearly the largest contributor to the cross-subsidisation of non-levy paying users of FENZ. Section 2 outlines these concerns in more detail.

1.22 Given the significant uncertainty surrounding the degree of cross-subsidisation between, and within, each levy class, it would be useful that there is independent oversight or review of the current FENZ cost allocation methodology. As it currently stands, it is not clear how costs are allocated, and we are reliant on assuming that FENZ has got it right. This is unacceptable given that levy payers are currently paying the vast bulk of FENZ funding. They deserve better information and assurance that independent oversight has been undertaken by appropriately qualified persons.

1.23 Perhaps even more importantly, the move from charging the FENZ levy based on indemnity value to sum insured should require a greater reduction in the levy rate to ensure that this class is not overcharged. Some back of the envelope estimates suggest that the increased amount collected as a result of moving from indemnity value to sum insured could be in the order of $200 million. This does not appear to be adequately factored into the FENZ model in respect to the non-residential sector.

1.24 Large infrastructure investments often have little risk of needing the services the FENZ provides - ports, airports, hydro-electricity generation structures, and the like. Moreover, a number of major industrial sites already have their own fire brigades, given the potential risk of fire and the need to have a very fast initial response team in place. Airports also often have their own first response teams, including effective in-house fire services. In such cases a levy on fire insurance is likely to bear no relationship to the direct and indirect costs imposed on FENZ.

1.25 BusinessNZ has, deliberately, not commented on specific exemptions (or proposed inclusions) from coverage of the FENZ levy, but it is noted a number of BusinessNZ members have major concerns in respect to at least some proposed inclusions. For example, the Aviation Industry Association is very concerned about the proposal to include domestic aircraft within the coverage of the FENZ levy, given that they consider at current rates, a $1.5 million aircraft (which is very low value) would pay around $1,700. They consider that aviation services rarely use FENZ services, and the incident rate is negligible.

1.26 In such cases, it would seem inequitable that such situations would not merit at least a partial levy exemption – perhaps to be determined on a case-by-case basis.

1.27 Given the above considerations, some BusinessNZ members have provided feedback suggesting that FENZ considers moving to introduce sub-sectors within the non-residential sector which is currently very broad and non-homogeneous groups including the likes of manufacturing plants dealing with hazardous substances, office blocks (of various sizes and differing fire risks), forests, livestock etc. It is assumed that there must be significant cross-subsidisation between these sectors – but currently we have no idea. Obviously more granular data would involve greater administrative costs and could be more problematic for insurers (currently collecting the levy on fire insurance), but it is likely to result in a more equitable outcome of funding for FENZ and lower costs, overall, for most businesses.

1.28 Notwithstanding the above, given the diversity of our membership, some members and sectors may have other specific issues they wish to comment on. Therefore, we have encouraged individual members and sector representatives to make their own submissions raising those issues specific to their areas of interest.

1.29 BusinessNZ considers that as an interim step towards a fairer allocation of costs for both public and private good aspects of FENZ, consideration be given to significantly increasing the contribution of government (currently understood to be around $10 million per annum), while consideration is given to towards adopting a more transparent funding system which would ideally have funding contributions coming from fire insurance (as currently), government (via public good aspects of FENZ), and user charges (or at least part-user charges) where feasible.

1.30 Finally, it should be noted that BusinessNZ has made numerous submissions on the funding of the FENZ over several years and would welcome the opportunity to meet to discuss our submission and its recommendations in more detail to ensure a more rigorous, robust and transparent system for funding FENZ is put in place going forward.

RECOMMENDATIONS

BusinessNZ **recommends** that:

The proposed increase of 5.2% from levy payers be rejected with any increase in FENZ funding be paid for via a significantly increased government contribution.

BusinessNZ **recommends** that:

As an interim step towards a fairer allocation of costs for both the public and private good aspects of FENZ, consideration be given to a phased, but significant, increase in the current contribution of government (currently understood to be around $10 million per annum) while consideration is given to towards adopting a more transparent funding system based on risk, which would ideally have funding contributions coming from on combination of fire insurance, government (via public good aspects of FENZ), and user charges (or at least partial user charges), where feasible.

BusinessNZ **recommends** that:

In principle, the proposed increase in the levy for motor vehicles to a universal flat levy of $40.12 (excluding GST) proceeds.

BusinessNZ **recommends** that:

The proposed increase to the cap on residential and personal property levy proceeds.

BusinessNZ **recommends** that:

A much more significant reduction in the non-residential property levy be considered given the proposed reduction in the consultation paper appears to be largely a result of a tightening in exemptions from the levy and perhaps more importantly, that the levy is now based on sum insured rather than indemnity value.

BusinessNZ **recommends** that:

If the decision is made to retain the current levy funding system almost totally based on sum-insured for fire, then consideration be given to capping the amount charged to non-residential property, given that sum-insured, beyond a certain point, may bear little relationship to the costs imposed on FENZ.

BusinessNZ **recommends** that:

Given the significant uncertainty surrounding the degree of cross-subsidisation between, and within, each levy class, it would be useful that there is independent oversight or review of the current FENZ cost allocation methodology.

Section 2.0: DISCUSSION ON FUNDING REGIME

2.1 BusinessNZ has long maintained that many FENZ services are in the nature of public goods and should, as such, be funded out of general taxation. This approach has been rejected by previous governments, presumably on the ground of fiscal costs, rather than on sound public policy grounds.

2.2 BusinessNZ maintains that if most FENZ activity is not to be funded via general taxation, then as far as possible, funding should follow actual risk – that is, the likely use of FENZ. This is in line with normal insurance principles that those responsible for risks should pay for them via appropriate insurance levies. This helps ensure an efficient allocation of resources and is the way most insurance operates in NZ and indeed, around the world.

2.3 In this respect it is useful to refer to the DIA original Fire Services Review Discussion Document (July 2015) which outlined (p.63) the benefits of general taxation (compared with an insurance-based levy). Funding from general taxation:

- ensures all taxpayers are required to contribute
- removes the confusing legislation that has given rise to possible levy minimisation
- would be highly cost effective, as government would be able to use its existing tax revenue collection systems
- would be relatively stable and predictable when compared with an insurance levy on premiums; and
- would see funding decisions subject to Treasury scrutiny, potentially increasing the Fire Service Commission's accountability and efficiency.

2.4 The last bullet point is particularly important.

2.5 A significant issue cutting across all government services/regulatory enforcement is what is the appropriate charging/levy regime where there is no contestability in service provision. In normal competitive markets, individuals make trade-offs between price and quality of service, along with a host of other factors.

2.6 Where an agency seeks to recover some or all of the costs of service/regulatory provision from service users or direct beneficiaries, the general public, or individuals paying for the service, need to be assured the charges set are not excessive in relation to costs incurred and take proper account of efficiency and equity considerations.

2.7 The danger with fire and emergency services provision, with what are effectively monopoly rights and guaranteed funding, appear to be threefold;

2.8 First is the concern the service price set by the monopoly, the private business or in this case, the fire service, will exceed what it would be had the service's provision been made contestable.

2.9 Second is the potential for the fire service to provide a sub-standard service in the knowledge that there are effectively no other competitors in the market.

2.10 Third (the corollary of the second and more likely) is the potential for the fire service to provide a "gold-plated" service in the knowledge that any increased costs can simply be passed on to private sector businesses and individuals via the insurance levy.

2.11 BusinessNZ is not in any way suggesting FENZ is providing a sub-standard service or potentially gold plating its services, but without oversight from Treasury or another independent agency, there are risks which would be better managed if FENZ was principally funded via general taxation.

2.12 It is noted that that the principles underlying the levy regime are set out on page 15 of the Consultation Paper with the levy required to be stable, universal, equitable, predictable, and flexible:

- A **stable** source of funding into the future to make sure our people can do their jobs safely and effectively, for everyone's benefit.
- **Universal,** so that our costs are generally shared among all who could benefit from services.
- **Equitable,** so that it makes the system fairer for all.
- **Predictable,** so policyholders can predict the amounts to pay, and we are able to predict how much levy income we will receive.
- **Flexible,** so that the levy can adapt to changes services and our costs.

2.13 While BusinessNZ generally endorses the above principles, in reality the current funding regime (97% of funding comes from levy payers) does not meet many of them, at least in respect to bullet points 2, 3 and 5.

2.14 Most people (not just fire insurance holders) benefit from the fire service activities and are more likely to do given the extended brief provided to FENZ and outlined numerous times in the Consultation Paper.

2.15 The Stage 2 Interim Cost Recovery Impact outlines some of the limitations associated with the current funding regime. For example, on p.3: "*There are also several other statutory considerations and data limitations that need to be considered in achieving cost recovery from the proposed levies.* [Some of] *These include:*

- *The tension between universality and the insured property levy, where uninsured property has the potential to benefit from Fire and Emergency services, but the owners do not have insurance contracts and so do not share in the costs through an insurance-based levy regime.*
- *The unavailability of data or information limits the ability to effectively differentiate within policyholder groups to reflect risk in establishing an equitable levy rate.*
- *Incident data is used as a proxy for use, or benefit from the potential to use, Fire and Emergency Services, when allocating costs into policyholder groups. While this provides the best available proxy, it does not necessarily directly reflect actual effort/costs and historical patterns may not necessarily reflect future activities.*
- *Sum insured is used as proxy for benefit, and to a degree risk, but while it is the best available basis it can limit the ability to apply statutory principles."* [4]

2.16 Given the above, BusinessNZ considers the Government should investigate a system of funding whereby the costs are sheeted home more appropriately to those who use (or cost) the fire service, adopting a risk-based approach rather than the proposed system based on the sum insured. The latter does not necessarily bear a strong, or indeed, any relationship to the services demanded of the fire service from time to time.

2.17 BusinessNZ considers previous Government's decisions to categorically reject general taxation as a major source of funding for fire services is seriously deficient and should be reviewed in light of the fact that much fire service activity comes within the public good category. A number of credible organisations have reviewed the situation and found the current levy on fire insurance seriously deficient. See for example, reports by the New Zealand Institute of Economic Research (NZIER) and Castalia Limited.[5]

2.18 BusinessNZ also remains concerned that the Consultation paper's proposed funding arrangements arguably fail to comply with its own departments'

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[4] Regulatory Impact Analysis: Interim Cost Recovery Impact Statement – Fire and Emergency Act Part 3 Levy - Stage 2 interim Cost Recovery Impact Statement (p.3).

[5] "*The Future of the Fire Service Levy", NZIER report to the Insurance Council of New Zealand"*, 9 May 2014 and *"Review of the Fire Service Funding Model",* Castalia Report to the New Zealand Professional Firefighters Union, March 2012.

(notably the Treasury's) best practice funding policy guidelines, as well as to take account of some of the best thinking coming out of the Australian Productivity Commission. BusinessNZ considers the Government needs to revisit its proposed funding policy in respect to fire and emergency services or risk facing a justified public accusation of seriously flawed policy development.

2.19 In order to develop a rigorous approach to funding, it is first necessary to determine the nature of fire and rescue services. In the case of public goods (which by definition include non-rivalry in consumption and non-excludability), such activities are generally best funded out of general taxation. In the case of the private goods (where the benefits and costs are largely of a private nature, with few externalities or spillovers), then clearly the costs of such activities should be funded as much as possible via user charges in order for individuals and businesses to undertake effective and efficient risk minimisation strategies based on known risks.

2.20 In respect to the potential for part-charging (user-pays) it is understood that some New Zealand ambulance services include a call-out fee of around $100 (although on average the full costs of a call-out are estimated to be more likely around $1,000) with the Government (taxpayer) picking up the bulk of ambulance costs. The rationale for such part-charges is, apparently, that most ambulance services provided are not totally government (taxpayer) funded but rely on grants and donations from the public etc. to make up the balance. Obviously, therefore, ambulance service providers see merit in sheeting home at least some of the cost associated with the use of their services to service users.

2.21 The above approach could also apply to the funding of FENZ service provision, including to costs arising from false/malicious calls which tie up fire service resources.

2.22 However, the part-charges option would need to be balanced against the increased administrative (transaction) costs associated with collecting such levies and/or part-charges.

2.23 If individuals can effectively "free ride" off third parties then it is likely they will reduce the amount of effort (time and money) which they spend trying to minimise damage to property.

Appendix One - Background information on BusinessNZ

The BusinessNZ Network is New Zealand's largest business organisation, representing:
Business groups EMA, Business Central, Business Canterbury, and Business South
BusinessNZ policy and advocacy services
Major Companies Group of New Zealand's largest businesses
Gold Group of medium-sized businesses
Affiliated Industries Group of national industry associations
ExportNZ representing New Zealand exporting enterprises
ManufacturingNZ representing New Zealand manufacturing enterprises
Sustainable Business Council of enterprises leading sustainable business practice
BusinessNZ Energy Council of enterprises leading sustainable energy production and use
Buy NZ Made - country of origin licensing organisation for NZ-made products, NZ-grown ingredients, and NZ-coded software services
The BusinessNZ Network is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

The BusinessNZ Network contributes to Government, tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and Business at OECD (BIAC).

BusinessNZ Network