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Dear Kelly

### **Fire Service Review**

BusinessNZ notes that the Government has approved the terms of reference and the panel to review the functions and funding of New Zealand's fire services.

Specifically, the Panel have been asked to provide advice to the Minister of Internal Affairs, by December this year, on how the following outcomes might be achieved:

- Outcome 1: that NZ's fire services have a clear mandate and operating platform for the functions they perform, and that it is clear how those intersect with functions performed by other emergency service providers;
- Outcome 2: that the Commission and fire services are organised and operating as effectively and efficiently as possible and will provide value for money in the future; and
- Outcome 3: that there is sustainable, stable and equitable funding for fire services, with the sources of that funding aligning with functions that they perform.

While BusinessNZ considers that all three outcomes are important, our comments are restricted to issues relating to Outcome 3: Funding.

The current system of funding the fire service, via insurance levies on insured property, has significant weaknesses. For example, the potential for "free-riding" by the uninsured, together with the fact that the Fire Service no longer devotes an overwhelming proportion of its time to fighting fires but provides a whole array of services.

In the Fire Services 2011 Annual Report, the then Minister of Internal Affairs outlined the number of disaster events responded to by the Fire Service in the 2010/11 year, including:

*“...the 7.1 magnitude Canterbury earthquake of 4 September 2010, to the Fox Glacier aircraft disaster of the same date, to the Southland snow event of 18 September 2010, to the Pike River Mine explosion of 19 November 2010, to the 6.3 magnitude Christchurch earthquake of 22 February 2011, and to the urban search and rescue team deployment to Japan following to 11 March 2011 earthquake and tsunami.”*

Also noted in the same report is the stark reality that the number of non-fire related emergencies continued to increase over the last decade, from 24 percent in 2001 to 37 percent in 2010/11.

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), related activities are generally best funded out of general taxation. In the case of private goods (where the benefits and costs are largely of a private nature, with few externalities or spillovers), then clearly the costs involved 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.

If individuals can effectively “free-ride” off third parties then it is likely they will reduce the amount of effort (time and money) spent trying to minimise damage to property.

The above response suggests three broad funding options are potentially feasible (practicable):

- full Crown funding from general taxation;
- a mix of funding sourced from the users of fire and rescue services and the Crown; or
- full user charges for the users of fire services.

It is clear from many of the desired outcomes and outputs of fire and rescue services, that these are overwhelmingly intended to protect the wider public interest of the New Zealand economy, its citizens and the environment, benefiting a wide range of New Zealanders, not just selective (private) groups or particular sectors of the economy. The emphasis is therefore clearly on fire and rescue activities being a public good.

On the other hand, there is a significant private good aspect of fire and rescue activities which demands that serious consideration be given to introducing at least partial user-charges.

If the above is generally accepted, then the question becomes: what is an appropriate user-charge regime? In the absence of any ability to charge, or where it is not possible to charge individuals after the event for the costs of fire and rescue

services (although this might be practicable in many cases and it is understood that many ambulance services charge in this way), it may be necessary to visit other de facto “user-charge” regimes for example, property insurance.

The requirement for property insurance is to develop a regime which reasonably closely approximates a user-charge regime while maintaining the essential insurance element, that is, to pool risks within similar risk categories. In this respect, any decision to levy property owners or others first needs to clearly determine the likelihood of fire and rescue services being deployed to particular buildings or areas and assess premiums accordingly. Premiums on the insured value of a building or structure in most cases bear no relationship whatsoever to the need to make use of fire and/or rescue services.

Any true reflection of risk will look at such fundamental factors as the structure of the building, susceptibility to fire (and the spread of fire), location etc.

Any blanket assumption that risk equates to the value of a building, and assessing fire levies accordingly would be bizarre and fail to take account of the risks associated with particular structures. For example, it is understood that some port companies do not insure concrete wharves for fire, on the basis that these will not burn and need fire and rescue services. It would be unfair for such companies be charged levies for fire and rescue services when they clearly will never need them. The value of property may be substantial but this does not equate to the risk or costs associated with fire and rescue services.

Equally concerning, the current regime does not address the issue of free-riders (i.e. those who choose not to insure their property or self-insure) but are automatically covered by the provision of fire and rescue services. Free-riders effectively do not contribute to such services but are subsidised by those companies and individuals who *do* insure their property.

While finding an appropriate funding regime for the fire service is far from simple, in BusinessNZ’s view, the current funding regime is clearly untenable into the future.

BusinessNZ would be happy to discuss our comments in more details should you wish. Please contact John Pask on 496 65 63 or email [jpask@businessnz.org.nz](mailto:jpask@businessnz.org.nz) in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P O'Reilly', with a stylized flourish extending from the end.

Phil O'Reilly  
**Chief Executive**