

Submission

By



to the

Department of Internal Affairs

on the

New Fire Legislation

**A framework for New Zealand's fire and rescue services
and their funding**

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NEW FIRE LEGISLATION

SUBMISSION BY BUSINESS NEW ZEALAND¹

1.0 Introduction

- 1.1 Business New Zealand welcomes the opportunity to make a submission on the proposed New Fire Legislation – A proposal for stakeholders’ “discussion document”.
- 1.2 The discussion document contains two sections: The first (Part A) considers a modified framework for New Zealand’s fire and rescue service. The second (Part B) looks at the funding of such services.
- 1.3 This submission looks specifically at funding issues only. While the submission does not consider in any detail the merits of the proposed framework for NZ’s fire and rescue services, in general Business NZ would support the “framework principles” outlined on p.9 of the discussion document. These being:
- *“There is a comprehensive fire risk management system in New Zealand*
 - *New Zealanders receive consistent and acceptable standards of service from fire response agencies*
 - *Fire response providers everywhere are able to integrate and coordinate their operations*
 - *There is an effective first response-organisation that is able to assist with non-fire emergencies*
 - *There is an equitable funding source for services”*
- 1.4 Having said this, Business New Zealand considers that Part B of the discussion document (funding) is seriously deficient and the proposed funding arrangements will not achieve the outcome of the fifth bullet point above i.e. achieving an equitable funding source for services.
- 1.5 The remainder of this submission deals with (Part B) – funding issues.

¹ Background information on Business New Zealand is attached as Appendix 1.

Recommendations

Business New Zealand **recommends** that:

A full analysis of the proposed activities of the fire and rescue service be undertaken for the purpose of identifying clearly the public and private good aspects of its activities so that a rigorous funding regime can be adopted.

Greater consideration be given to addressing problems associated with “free-riders” who could be reasonably expected to use fire and rescue services but will not contribute under the proposed funding regime.

Without prejudice to the above recommendations

Business New Zealand **recommends** that:

The majority of the costs associated with fire and rescue services be funded via general taxation with a relatively low level of contributions from the users of fire and rescue services via user charges.

Where user charges are considered feasible, they should be based on a sound understanding of the risks involved, not imposed on an ad hoc basis. Therefore, rather than being based on insurable or replacement value (as proposed in the discussion document), user charges should be based on actual risk factors e.g. building structure, susceptibility to fire, location, etc.

2.0 Funding

- 2.1 Business New Zealand is seriously concerned about the lack of analysis within the discussion document of appropriate funding mechanisms for fire and rescue services.
- 2.2 The discussion document proposes that a fire and rescue levy would be based on all property insured against any kind of loss or damage. This would be replacement value or the maximum payable under the insurance policy, although whether the higher or lower of these two values is not clear.

- 2.3 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.
- 2.4 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.
- 2.5 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.
- 2.6 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 *all* New Zealanders, not just selective (private) groups or particular sectors of the economy but New Zealand Inc. The emphasis is therefore clearly on fire and rescue activities being a public good.
- 2.7 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.
- 2.8 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 as considered in the discussion document.

- 2.9 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 needs to clearly determine the likelihood of fire and rescue services being deployed to particular buildings or areas and assess premiums accordingly. Basing premiums on the insured value of a building or structure will in most cases bear no relationship whatsoever to the need to make use of fire and/or rescue services.
- 2.10 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.
- 2.11 Making blanket assumptions that risk equates to the value of a building and assessing fire levies accordingly (as proposed in the discussion document) is bizarre and fails 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. Why should 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.
- 2.12 Equally concerning, the proposed funding 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 would be subsidised by those companies and individuals who *do* insure their property.
- 2.13 While Business NZ appreciates that the proposals try to expand the funding base for the activities of the fire and rescue service, what is suggested will still be highly distortionary with services narrowly funded and continuing to be funded in an inequitable manner. The situation is more problematic given that the majority of services provided by the fire and rescue service may not necessarily relate to fire risk at all (rescuing a cat up a tree has to be a private, not a public good). The burden of funding will fall disproportionately on businesses and New Zealanders sensible enough to insure.

- 2.14 In summary, the fire service levy (taxation) on insurance discriminates against the majority of New Zealanders who buy insurance to manage their own risks, and as a consequence do not have to call on government or the community for financial assistance in the event of a disaster.
- 2.15 Finally, under the proposed system of guaranteed income from third parties (insured property owners), with a lack of alternative providers (effectively no contestability), the incentives for the proposed new Fire and Rescue Service (FRS) to control costs will be seriously undermined. With monopoly provision, and guaranteed funding, the incentives to improve efficiencies will likely be seriously undermined over time. Moreover, the incentive to expand services and/or contract services will largely be supplier driven and possibly driven by users (third parties) but not necessarily by the payers for those services who will effectively have no say in the matter.

Business New Zealand **recommends** that:

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Greater consideration be given to addressing problems associated with “free-riders” who could be reasonably expected to use fire and rescue services but will not contribute under the proposed funding regime.

Without prejudice to the above recommendations

Business New Zealand **recommends** that:

The majority of the costs associated with fire and rescue services be funded via general taxation with a relatively low level of contributions from the users of fire and rescue services via user charges.

Where user charges are considered feasible, they should be ideally based on a sound understanding of the risks involved, not imposed on an ad hoc basis. Therefore, rather than being based on insurable or replacement value (as proposed in the discussion document), user charges should be based on actual risk factors e.g. building structure, susceptibility to fire, location etc.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 66 member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand 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.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.