

# **Submission**

By



to the

**Department of Internal Affairs**

on the

**Fire Services Review : Discussion Document**

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PO Box 1925  
Wellington  
Ph: 04 496 6555  
Fax: 04 496 6550

# FIRE SERVICES REVIEW: DISCUSSION DOCUMENT SUBMISSION BY BUSINESSNZ<sup>1</sup>

## **1.0 INTRODUCTION**

- 1.1 BusinessNZ welcomes the opportunity to submit on the Fire Services Review: Discussion Document (“the discussion document”).
- 1.2 The discussion document looks at both potential fire service structure options and funding issues. While a number of BusinessNZ members will likely have differing views on the appropriate structure of NZ’s fire services, e.g. urban verses rural interests etc, this submission looks particularly at funding issues (principally pages 31-39).
- 1.3 BusinessNZ considers the Government’s decision to categorically reject general taxation as a major source of funding for fire services (p.63) is seriously deficient and ought to be reviewed in light of the fact that much fire service activity comes within the public good category. A number of reviews by credible organisations have 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.<sup>2</sup>
- 1.4 Not only independent research organisations have found the current system of funding deficient, but indeed the discussion document itself outlines the deficiencies of the current fire insurance levy to fund fire services (p.32-33).

## **Recommendations**

BusinessNZ **recommends** that:

**Most of the cost of fire and rescue services be funded from general taxation with a relatively low level contribution from fire and rescue service users via user charges.**

### **Without prejudice to the above recommendation:**

**If the Government does not intend to revisit its current decision not to fund fire and rescue services from general taxation, then:**

BusinessNZ **recommends** that:

**Despite its deficiencies, Mixed Funding Option 2 (p.37), outlined in the discussion document, be pursued, as it is rather more equitable than the status quo (or Option 1 for that matter).**

BusinessNZ **recommends** that:

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<sup>1</sup> Background information on BusinessNZ is included as Appendix 1.

<sup>2</sup> “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.

**Funding Option 1 (p.34) not be pursued given its strictly limited advantages compared with the status quo.**

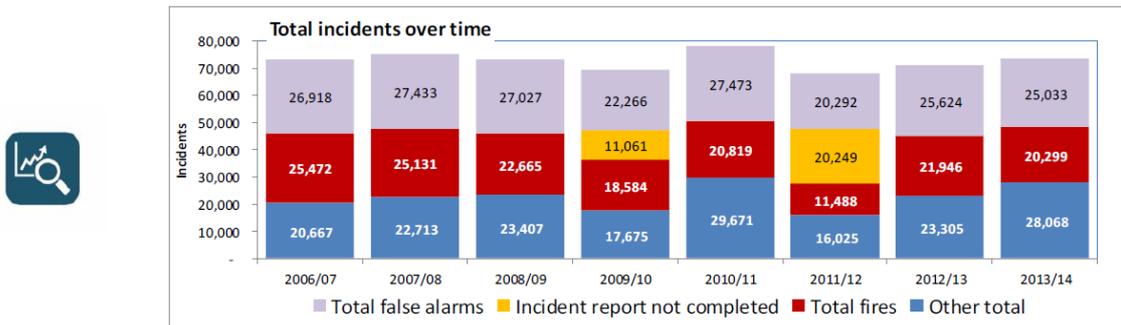
## 2.0 Appropriate funding arrangements for Fire Services

2.1 Business New Zealand is seriously concerned at the discussion document's lack of analysis of appropriate funding mechanisms for fire and rescue services.

2.2 The decision not to consult on the option of funding via general taxation suggests political interference, particularly as the rationale for funding from this source is sound, most fire service activity being of a public good nature.

2.3 Figure 9 (p.51) in the discussion document (see below) clearly shows that in 2013/14 just over one-quarter (27.7%) of all incidents actually involved fire, with the bulk of incidents either being other issues and/or false alarms.

Figure 9: Total incidents 2006/07 – 2013/14



Source: Department of Internal Affairs from NZFS statistics<sup>40</sup>

2.4 On page 63 the discussion document outlines the benefits of general taxation (compared with an insurance-based levy). These are worth recapping:

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

2.5 The discussion document then goes on to state (presumably principally, if not solely, on the basis of the potential cost to government) that ***“Ministers have decided that the Government will not pursue further investigation into this option as part of this review process”***. This decision however makes a mockery of the whole consultation process, particularly given the strong

economic justification for funding much fire service activity via general taxation in light of its public good nature.

- 2.6 A rigorous approach to funding first requires the nature of the services – in this case fire and rescue services – to be determined. If the services in question can be defined as public goods (which include non-rivalry in consumption and non-excludability), they are generally best funded out of general taxation. With private goods (where the benefits and costs are largely of a private nature, with few externalities or spillovers), clearly the cost should be funded as much as possible by means of user charges. Individuals and businesses will then be encouraged to undertake effective and efficient risk minimisation strategies based on known risks.
- 2.7 Given many of the desired outcomes and outputs of fire and rescue services, it is evident that the services are overwhelmingly carried out to protect the wider public interest of the New Zealand economy, its citizens and the environment. The benefit is to *all* New Zealanders, not just selective (private) groups or particular sectors of the economy but New Zealand Inc. The emphasis therefore is clearly on fire and rescue activities being a public good.
- 2.8 The discussion document states clearly that “...*expectations [of the Fire Service] have changed and will continue to change. The fire services have adapted to changing community expectations and needs by responding to non-fire emergencies like swift water rescue, storm damage, medical emergencies, and motor vehicle extrications. These services are now part of the fire services. There are also more international responses, such as the NZFS helping with International Urban Search and Rescue (USAR) responses. The rural fire sector also provides international responses to wildfires in Australia, Canada and the United States of America. The consequences of these changed expectations are increasing commitments in terms of resource, training and ongoing support for non-fire services and international support.*” (p.12)

### **Recovery of costs**

- 2.9 A significant issue which cuts across all government services/regulatory enforcement is what an appropriate charging/levy regime is where there is no contestability in service provision. In normal competitive markets, individuals will make trade-offs between price and quality of service, along with a host of other factors.
- 2.10 Where an agency seeks to recover some or all of the costs of service/regulatory provision from the users or direct beneficiaries of that service, the public or individuals paying for the service need to be assured that the charges set are not excessive in relation to the costs incurred and take proper account of efficiency and equity considerations.
- 2.11 The danger with what are effectively monopoly rights in the provision of fire services provision (and guaranteed funding) appear to be threefold.

- 2.12 First is the concern that price of service set by the private business or in this case, fire services, will exceed that which would occur had the provision of service been made contestable.
- 2.13 The second is the potential for the fire service to provide a sloppy service in the knowledge that there are effectively no other competitors in the market.
- 2.14 The 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 be simply passed on to private sector businesses and individuals via the insurance levy. This point is effectively made in the discussion document (p.41).

*“The levy rate has stayed the same since 2008, although the Commission’s revenue has increased over that time because the total value of insured properties has increased. This means that there is a natural presumption in favour of stability, as the Commission’s income continues to grow without the need to change the rate. This levy review process is not dynamic or adaptive to the changing nature of the Commission’s activities.*

*The current levy review process is also not as robust and transparent as modern best practice review systems. For example, there is no requirement to publicly discuss the Commission’s increased expenditure with levy payers, because the funding base increases even though the rate remains stable. There is also no public consultation by the Department on what the fire service levy rate should be. Nor does the levy review process make it clear to levy payers what their levy is contributing to. The Government has a general expectation that there should be consultation on charges to the public.”*

- 2.15 Given that the government (via taxpayers) will not wear a significant proportion of the costs associated with the fire service, then the incentives to monitor behaviour both in terms of services and costs will likely be reduced. Ministers will be concerned to minimise the risks to the Crown and hence will likely encourage greater provision of fire services knowing that the costs will largely fall on those who have fire insurance (via the insurance levy). As the Discussion Document points out, if funding was via general taxation then *“funding decisions would be subject to Treasury scrutiny, potentially increasing the Commission’s accountability and efficiency.”*
- 2.16 Given the above, it is disappointing that the discussion document essentially consults on only 2 funding options. Option 1 (a slightly modified model of the status quo insurance levy approach) and Option 2, which, while still deficient, is better than the status quo.

2.17 Funding model 2 (mixed funding model) would at least provide for a mix of funding sources:

- A fire services levy based on insurance
- Contributions from government to fund non-fire activities
- Contributions from government to reflect under-insurance of Crown properties; and
- Contributions from the motor vehicle sector.

2.18 If majority funding via general taxation is not pursued, BusinessNZ considers that Funding Option 2 is at least some improvement on Option 1 (and the current status quo) and therefore should be looked at in more detail.

BusinessNZ **recommends** that:

**Most of the cost of fire and rescue services be funded from general taxation with a relatively low level contribution from fire and rescue service users via user charges.**

**Without prejudice to the above recommendation:**

**If the Government does not intend to revisit its current decision not to fund fire and rescue services from general taxation, then:**

BusinessNZ **recommends** that:

**Despite its deficiencies, Mixed Funding Option 2 (p.37) as outlined in the discussion document) be pursued as it is rather more equitable than the status quo (or Option 1 for that matter).**

BusinessNZ **recommends** that:

**Funding Option 1 (p.34) not be pursued given its strictly limited advantages compared with the status quo.**

## **APPENDIX 1**

### **BACKGROUND INFORMATION ON BUSINESSNZ**

BusinessNZ is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, Business Central, Canterbury Employers' Chamber of Commerce (CECC), and the Otago-Southland Employers' Association (OSEA) – and 74 affiliated trade and industry associations, Business NZ represents 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, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the Business and Industry Advisory Council (BIAC) to the Organisation for Economic Cooperation and Development.