

Submission by



to

Fire and Emergency New Zealand (FENZ)

on

Funding Fire and Emergency Services for all New Zealanders

**Consultation on a proposed increase to the Fire and Emergency
transitional levy for the 2024/25 and 2025/26 financial years**

May 2023

**CONSULTATION ON A PROPOSED INCREASE TO THE FIRE AND
EMERGENCY TRANSITIONAL LEVY FOR THE 2024/25 AND 2025/26
FINANCIAL YEAR
SUBMISSION BY BUSINESSNZ¹**

1.0 Introduction

- 1.1 BusinessNZ welcomes the opportunity to submit on the FENZ *Consultation on a proposed increase to the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial year (The Consultation Document)*.
- 1.2 BusinessNZ understands from the Consultation Document that the reason for the proposed transitional levy funding increase is to pay for a significant cost increase largely resulting from the new collective employment agreement settled in December 2022 between Fire and Emergency NZ (FENZ) and the NZ Professional Firefighters Union (NZPFU). To cover the increased cost, the consultation document proposes an increase of 12.8% in the transitional levy component across all levied insurance policies for the 2024/25 and 2025/26 financial years, taking effect from 1 July 2024.

Recommendations

BusinessNZ **recommends** that:

The Consultation Document proposal to increase (by 12.8%) the transitional levy component across all levied insurance policies for the 2024/25 and 2025/26 be rejected.

BusinessNZ **recommends** that:

Given the significant public good aspect of many of the services provided by the FENZ (outlined in the Consultation Document), the total cost increase in the transitional levy, forecast for the financial years 2024/25 and 2025/26, be funded from general taxation, partially compensating for the significant shortfall in FENZ's current government funding.

2.0 Discussion

¹ Background information on BusinessNZ is attached as Appendix 1.

- 2.1 BusinessNZ has made numerous submissions on Fire Service funding over recent years, pointing out the deficiencies of the Government's existing and proposed funding model, namely, funding the Fire and Emergency NZ (FENZ) from levies on fire insurance contracts.
- 2.2 In short, BusinessNZ continues to believe that significant elements of fire services should be funded out of general taxation, given the public good nature of much of what the fire service does. Funding via a fire insurance levy takes no account of the costs imposed on the fire service and also fails to take account of free riders (those without fire insurance) who impose additional costs on FENZ. In this respect, it is understood that much government-owned property does not have fire insurance, or alternatively is exempt from paying the levy.
- 2.3 The Government currently pays a paltry \$10 million towards the public good component of FENZ out of a total forecast revenue of over \$661 million for the 2022/23 financial year (this being the forecast before the NZPFU settlement referred to above). Around 97 percent of revenue comes directly from insurance levies on property and from motor vehicle insurance (see p.13).
- 2.4 It is totally unacceptable that the Government has not budgeted for increasing its contribution to FENZ given FENZ activities have expanded well beyond fire prevention and the provision of fire suppression services when fires occur. As the Consultation Document states clearly on p.3: *"Fire and Emergency is the national risk reduction and response agency for fire. We're an essential service that New Zealanders also turn to for immediate response in a range of other emergencies – from chemical spills and car accidents to medical emergencies, rescues and severe weather events."*
- 2.5 P.4 of the Consultation Document provides a clear visual representation of the emergency management functions in which FENZ is involved (see below).



- 2.6 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. It helps ensure an efficient allocation of resources and is the way most insurance operates in NZ and indeed, around the world.
- 2.7 BusinessNZ considers the Government’s decision to categorically reject general taxation as a major source of funding for fire services is seriously deficient and ought to be reviewed in light of the fact that much fire service activity comes within the public good category. Reviews by a number of credible organisations have found the current fire insurance levy seriously deficient.²
- 2.8 A further justification for a greater taxpayer contribution to FENZ funding is the significant risk attached to government service provision where levy payers have little or no say in how services are provided or, perhaps more importantly, in how much they are required to pay – irrespective of services consumed.
- 2.9 That government (via taxpayers) does not wear a significant proportion of the costs associated with FENZ means the incentives to monitor behaviour both in

² See, for example, the Report from the Office of the Auditor-General on Fire and Emergency NZ (FENZ) Annual Review 2021/22. Briefing to the Governance and Administration Committee – 22 February 2022.

terms of services and costs are likely reduced – arguably a further reason for the current forecast cost blowouts. Ministers will be concerned to minimise the risk to the Crown and hence will likely encourage greater fire service provision knowing the costs will largely fall on those with fire insurance (via the insurance levy). If funding were via general taxation then funding decisions would be subject to Treasury scrutiny, potentially increasing FENZ accountability and efficiency.

- 2.10 Finally, as the Consultation Document requires, BusinessNZ is happy to permit anything in this submission to be released under the Official Information Act (OIA). BusinessNZ is also happy for our name to be included in any summary of submissions that may be published in due course.

BusinessNZ **recommends** that:

The Consultation Document proposal to increase (by 12.8%) the transitional levy component across all levied insurance policies for the 2024/25 and 2025/26 be rejected.

BusinessNZ **recommends** that:

Given the significant public good aspect of many of the services provided by the FENZ (outlined in the Consultation Document), the total cost increase in the transitional levy, forecast for the financial years 2024/25 and 2025/26, be funded from general taxation, partially compensating for the significant shortfall in FENZ's current Government funding.

