

Juken New Zealand Ltd Submission

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

1 May 2023

Submitter

This is a submission on behalf of Juken New Zealand Ltd (JNL)

Introduction

Juken New Zealand Ltd (JNL) welcomes the opportunity to make a submission on the proposed increase to the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial years. The delivery of timely, effective, yet cost-efficient fire and emergency services is critical to the Forest growing sector and therefore our business.

Submitter

JNL

Juken New Zealand Ltd (“JNL”) are a fully integrated, Japanese owned, New Zealand based and registered company with a global outreach. We have been heavily involved with the NZ forestry and wood-processing industries for over 30 years – manufacturing innovative wood products from selectively planted, managed and harvested Radiata Pine for local and export markets. In that time, we have become important economic and cultural contributors to the local communities within which we operate.

We have sustainably managed and certified plantation forests in the East Coast and Wairarapa regions of NZ’s North Island. In those same locations and Kaitia, we have four wood processing plants where we employ over 550 people and obtain goods and services from several hundred domestic suppliers.

Research and development are important to JNL, and we also benefit from the technology and resources of our Japan-based parent company WoodOne Ltd, a major international housing materials and componentry company, which has invested substantially into JNL and New Zealand over the last 30+ years.

JNL rely heavily on the effective functioning of all the layers of New Zealand’s multilayered emergency management system within both our forests and wood processing operations.

Overview of Forest Growing Sector In-House Fire-fighting Resource Maintained by Forest Owners

The forest growing sector has long recognised the significant risk posed by fire to its biological assets and that in many cases FENZ (and its predecessors) is not well placed to respond in a timely manner to fire events in or near all plantation forests or rural environments, where they might spread into plantation forests. Many companies have



therefore invested in their own fire risk management capability and preventative activities. In many cases insurance is not a cost-effective option and companies have chosen to self-insure. This capability and expertise are available to FENZ and in many rural settings makes up a significant portion of the available fire-fighting capability.

In 2022 the NZFOA/NZFFA Fire Committee undertook a survey of the 21 largest forest owners to establish a baseline of the investment being made and the capability and capacity that the industry have for fire risk management. The following is a summary of the key findings of this survey.

- a. Investment in in-house fire-fighting capability costs approx., **\$11 million/year.**
- b. Number of trained crew leaders/firefighters = **870.**
- c. Incident management Team members = **270.**
 - i. Incident controllers = **21.**
 - ii. Operations managers = **47.**
 - iii. Logistics managers = **18.**
 - iv. Planning managers = **18.**
 - v. Aviation managers = **18.**
- d. Forest Fire Fighting Equipment
 - i. Tankers 4x4 – **59.**
 - ii. Tanker 10.000l plus – **7.**
 - iii. Smoke chasers – **12.**
 - iv. Wajax HPLV – **173.**
 - v. Heavy pumps – **85.**
 - vi. Slip on units - **12.**
- e. Forest Fire Fighting Hose
 - i. 25mm – **12,240** metres.
 - ii. 41mm – **40,020** metres.
 - iii. 75 mm – **7,275** metres.
- f. Heavy bulldozers = **85.**
- g. 20-50-tonne excavators = **256.**

Within the Wairarapa region, JNL owned or managed resources contribute approximately:

- 45% of trained Crew Leaders
- 47% of trained Fire Fighters
- 35% of HPLV pumps
- 25% of HPHV pumps
- 20% 70mm hose
- 44% of 41mm forestry hose available within the region.

In addition to this we have provided storage for fire suppression additives in our HSNO certified storage facility as an in-kind contribution to benefit FENZ and the wider rural community.

The results of this survey highlight the significant ongoing investment made by large forest owners to protect their forests.

The ongoing maintenance of this in-house fire fighting resource also highlights the significant contribution that large forest owners contribute to the rural sectors overall readiness in terms of trained and capable workforce and equipment. This substantially increases the resources that FENZ has available to draw on for effective fire suppression and extends its national coverage to respond in a timely manner.



General Comments

JNL acknowledges that FENZ operational costs have increased due to the settlement reached between the Crown (through FENZ as a Crown entity) and the New Zealand Professional Firefighters Union (NZPFU) and that this must be incorporated into FENZ annual ongoing operational costs.

JNL, however, continues to have concerns about the lack of transparency or ability to determine where the 1) existing operational cost are being incurred, and 2) new operational costs will be incurred. This is further exacerbated by the significant increase in FENZ operational costs after the 2017 merger of the rural and urban fire services without any correlating increase in rural fire services.

JNL notes that FENZ collects very detailed information on urban and residential properties involved in fires but does not do the same for vegetation fires and specific land use types involved. This leaves a significant gap in the ability to determine where fire event related costs lie. The JNL note that in its response to question 147 to the Governance and Administration Committee FENZ stated that *“Fire and Emergency does not record data specifically relating to plantation forests”*. This information gap fuels the assumption and in many cases misconceptions and misinformation that plantation forests pose the greatest risk and cost for vegetation fires when in fact this is unlikely to be the case given the proportion of fires occurring in the conservation estate and that many fires likely start outside of plantation forests.

Given the significant potential costs to Forest owners who insure their forests for fire, and given forest owners also have contractors who pass on their fire insurance costs, JNL believe that FENZ must start collecting more detailed information on land use associated with vegetation fires to enable informed and evidence based decision making in relation to future prevention and better understanding land use risk and operational costs and cost allocations, which JNL sees as fundamental to FENZ core purpose.

As a forest owner JNL are concerned that rural land users are being burdened with costs for services to non-rural and non-fire operations and that the existing levy structure does not apportion costs fairly or equitably across the beneficiaries of FENZ services.

JNL notes that in the 2021/22 Annual review of Fire and Emergency New Zealand Report of the Governance and Administration Committee it states that *“A large portion of FENZ’ activities is not fire-related...”* and that *“Firefighters attend motor vehicle accidents, hazardous substance incidents, severe weather events, and natural disasters. FENZ also works with communities to build resilience and help respond to and recover from emergencies. However, FENZ noted that responding to severe weather events is an additional function of the organisation under the Act. It is not one of its core functions.”* Yet a significant portion of FENZ revenue is sourced through levies on fire insurance.

JNL is concerned about the inadequacy of Crowns contribution toward FENZ revenue relative to the public good benefit that FENZ delivers. With this additional operational cost, the Crown will be contributing approximately 1.4% (\$10 m) toward FENZ proposed new operational costs. Considering the public benefit that is very clearly delivered for fire risk management services alone this contribution clearly does not reflect the public benefit (conservation land, public safety, adverse climatic events etc) that exists in maintaining FENZ capability and capacity and is no longer justifiable. Add to this the fact that FENZ services are much broader than just fire (JNL notes that FENZ was a critical part of the Cyclone Gabriel Response). JNL believes that the Crown contribution should more accurately reflect the significant public benefit that FENZ delivers across its various roles.

JNL takes the view that the proposed increase operational costs should be covered by an increased Crown contribution to FENZ and that this should not be attributed to the transitional Levy.

JNL also proposes that the Crown contribution should increase significantly when the transitional levy ends to reflect the public benefit that is delivered by FENZ.



On pages 10-12, the Consultation document highlights several considerations presented by FENZ. While JNL acknowledge and accept these assessed impacts, these appear to have been selected and presented in a manner specifically aimed at supporting the position presented in that they articulate a reduction in equipment, people, and services to highlight maximum negative impact.

While JNL appreciates the immediacy of the need, it believes that there are also other ways to explore longer term savings opportunities particularly around whether the response strategies to rural vegetation fires are the most effective and efficient that they can be, whether available resources are being utilised and deployed as effectively and efficiently as they can be, and whether they are following international best practice. For example, in foot note 6, on page 11, reference is made to the high external costs of using helicopters with monsoon buckets to fight forest fires and earth moving equipment to clear debris. The costs associated with helicopter use at vegetation fires has increased significantly in the last 5 years and this cost and use should be validated to ensure that this was the most cost-effective strategy option for each event and is not being overused or the impact could be better delivered through a combination of other strategies (i.e., firefighters on the ground). Fire fighting at night is another strategy that could be a more cost-effective strategy as it contributes to containment and increased fire suppression reducing the scale and spread at night under generally lower intensity fire conditions meaning the overall costs could be significantly reduced compared to stopping firefighting activities at night and dealing with the resulting spread the next day.

JNL are also strongly of the view that the forest growing sector offers a significant firefighting capability and resource that is available to, and frequently drawn on by FENZ. However, despite the operational expertise, knowledge, experience and investment in firefighting equipment made by the forest growing sector, JNL does not believe that is this being adequately recognised, supported, maintained, or utilised by FENZ to maximise its value and cost effectiveness. Nor is this expertise being utilised to best effect across emergency management structures.

JNL believe that FENZ should implement a programme of independent expert reviews of response strategies for vegetation fires using both domestic and international experts to ensure that it is applying international best practices and is delivering its service most effectively and as cost efficiently as possible. This is highly likely to result in the identification of operational savings that do not impact operational effectiveness.

Further to this JNL believe that the continued increases in levy costs incurred by forest owners (whether through insurance or via contractor insurance fire levy costs) will see forest owners start to weigh up the cost/benefit or value of continuing to maintain their own fire-fighting capability and equipment or to continue to invest in standing crop insurance. JNL believes that the negative outcomes of such decisions would be wide reaching in terms of rural fire readiness.

JNL notes that while the Consultation document identifies the operational costs for the period being consulted on, it does not describe how the costs will be attributed to any activities to be undertaken over the next levy period as is required under section 143(2)b.

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| <p>(2) FENZ must consult levy payers, policyholders, and any other persons that FENZ considers are likely to be substantially affected, or their representatives, about—</p> <ul style="list-style-type: none">(a) the proposed regulations; and(b) the activities that FENZ proposes to undertake in the period to which the proposed regulations relate. |
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Consultation Questions

1. Do you agree that reducing costs for the years 2024/25 and 2025/26 would compromise Fire and Emergency's ability to provide services to communities and result in a failure to meet its commitments under the agreement with the NZPFU?



Noting the points above in the general discussion about being unable to determine where fire fighting costs are being incurred, the significant operational cost increase since the 2017 merger, and what work has/might be done to determine if FENZ is utilising its budget as cost effectively as it can, it is difficult to have any sort of informed opinion on whether a reduction in fees for 24/25 and 25/26 would have any material bearing on FENZ ability to provide services, or if in fact it may result in more cost effective use of existing resources? Like everyone in business searching for efficiencies should be as much of an area of concentration as simply increasing levy rates on insurance payers.

2. Do you agree with the proposal to increase the transitional levy for the 2024/25 and 2025/26 years to fund the increased costs outlined in this discussion document?

No. While we recognise and acknowledge the unavoidable cost pressure that the settlement with the NZPFU and the identified increased operational costs will have, we question whether the existing levy and public benefit that FENZ delivers are in balance. We do not believe that they are and would not support levy payers continuing to subsidise the Crown to cover the public good aspects of the valuable and critical services that FENZ deliver just because it's the easiest way for it to do so. It is difficult to understand how it can be justified that there is only 1.4% public benefit given the critical nature of the work that FENZ delivery for all New Zealanders

JNL believes that the crown needs to contribute more fairly and equitably to represent the public benefit costs of FENZ delivering its valuable and critical services.

JNL also highlights the uncertainty that exists in the justification of the significant operational cost increases that arose following the merger of the rural and urban fires services (>\$200million) which ran contrary to the projected economic savings through efficiencies that were projected as an outcome of the merger.

3. Do you agree that applying the increase as proposed is the simplest way to distribute the costs across different groups of levy payers?

No

4. If you answered **No** to question 3, please provide details of any alternative you would recommend and why you recommend it:

JNL believes that an increase in the crown contribution should cover this during the transition period to represent the public benefit delivered by FENZ, and that a more balanced public good contribution should be made by the Crown when the levy transitions. It may appear to be the simplest approach within the framework that currently exists, however, as noted above in response to question 2 and in the general comments, JNL believes that the crown needs to contribute more fairly and equitably to represent the public benefit costs of FENZ delivering its valuable and critical services.

5. Do you agree with the assumption that there will be growth in levy revenue of 2% per annum, to reflect inflation and increases to the number of policies, across all policy holder groups?



Yes

6. Do you consider this growth projection a realistic assumption?

No

7. If you answered **No** to question 6, please provide details of any alternative you would recommend and why you recommend it:

Any predicted increases could be based on a rolling 3–4-year average. It is unclear if 2% is sufficient given the rate of CPI increase seen in the last 2 years.

8. Are there other ways you think the levy could be increased to recover the additional costs?

Yes

9. If you answered **Yes** to question 8, please provide details of your proposed alternative and the benefits and downsides of your suggested approach(es):

As noted in general comments, JNL believes that an independent expert review of FENZ operational response strategies to ensure that best practice and the most cost-effective strategies particularly in the rural environment are being applied to achieve the stated response objectives. This will identify if any cost efficiencies can be realised in future response strategies and inform rural fire training and capability development to achieve this.

Also, as noted previously JNL believes that the Crown contribution should be increased to better reflect the public benefit of the services that FENZ deliver. JNL does not believe that the current Crown contribution of \$10 million (~1.4%) reflects, or even comes close to reflecting the actual public good or even the Crowns direct benefits and needs to be amended to reflect this more accurately.

10. What impacts will the proposed increase to the transitional levy have on you? (For example, do you think it could impact your insurance costs or choices, spending on other goods and services, or non-financial impacts you think are relevant?)

The high cost of insuring tree crops means that many large forest owners do not insure or choose to self-insure or accept the risk of fire. The increasing cost of the levy compounding with ever increasing insurance premium is likely to drive forest owners to consider the cost benefit of continuing to insure their tree crops. This could result in forest owners choosing not to insure.

11. Are there any other matters you consider relevant for implementing the proposed increase to the transitional levy.

No



12. If you answered **Yes** to question 11, please provide details of matters you consider relevant:

NA

13. If you are an insurer, how much time would you need to implement this change?

NA

For further information please contact:



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