Submission by

BusinessNZ

GROWING PROSPERITY AND POTENTIAL

to the

Department of Internal Affairs

on the

Proposals for Fire and Emergency NZ Regulations Discussion Document – March 2017

April 2017

SUBMISSION BY BUSINESSNZ[1] ON THE PROPOSALS FOR FIRE AND EMERGENCY NZ REGULATIONS – TRANSISTIONAL LEVY RELIEF AND CALCULATION OF LEVY ON INSURANCE COVERING DIFFERENT PROPERTY TYPES DISCUSSION DOCUMENT.

1.0 Introduction

1.1 BusinessNZ welcomes the opportunity to submit on the Department of Internal Affairs' *"Proposals for Fire and Emergency NZ regulations – Transitional levy relief and calculation of levy on insurance covering different property types discussion document"* (the "Discussion Document").

1.2 BusinessNZ has made numerous submissions on Fire Services funding, pointing out the deficiencies of the Government's proposed funding model, namely, the funding of Fire and Emergency NZ (FENZ) from levies on insurance contracts for material damage. BusinessNZ's rationale for its view that fire services should be funded out of general taxation, not through insurance levies, has been outlined extensively in previous submissions so is not repeated here.[2]

1.3 BusinessNZ considers the proposed government approach to FENZ funding (based on levies on insurance for material damage) is not only deficient from a conceptual policy point of view but that this deficiency has been highlighted by the apparent need to investigate transitional relief provisions - largely the basis of this Discussion Document.

1.4 BusinessNZ recommends the Government revisit its FENZ funding policy or at a minimum, fund the transitional costs out of general taxation to ensure what will otherwise be significant new costs for many businesses are minimised. Providing transitional relief to some businesses facing substantial increases (presumably funded by higher premiums on those not able to access transitional relief), will simply accentuate the deficiencies of the proposed system. The Discussion Document reflects this problem on p.4 in stating that: *"Broadly speaking, if more transitional relief is granted, rates will increase for policyholders who are not granted relief."*

1.5 Over the medium term, BusinessNZ considers the Government should investigate a system of funding whereby the costs are sheeted home more appropriately to those who use (or cost) the fire service, adopting a risk-based approach rather than the proposed system based on the sum insured for material damage. The latter does not necessarily bear a strong, or indeed, any relationship to the services demanded of the fire service from time to time. Large infrastructure investments, for example, often have little

[1] Background information on BusinessNZ is included as Appendix 1.
[2] See Submission by BusinessNZ to the Department of Internal Affairs on the Fire Services Review: Discussion Document (July 2015) and Submission by BusinessNZ to the NZ Fire Service Commission on the Public Consultation Paper on the setting of the rates of levy on contracts of fire insurance for the 2017/18 financial year (November 2016).

risk of needing the services provided by the fire service - ports, airports, hydro-electricity generation structures, large university campuses and the like. In such cases a levy on material damage insurance is likely to bear no relationship to the direct and indirect costs imposed on fire and emergency NZ.

1.6 BusinessNZ would welcome the opportunity to work with the DIA and the new Fire and Emergency NZ (FENZ) as to how a new more risk-based regime could be set up and operate.

Recommendations

BusinessNZ **recommends** that:

If the Government proceeds with its proposed funding approach of providing some transitional relief, as outlined in the Discussion Document, to particular businesses, then the Government should (at least) fund the transitional relief costs from general taxation rather than require what, in effect, will be greater contributions from those businesses unable to meet the criteria for transitional relief.

Without prejudice to the above recommendation:

BusinessNZ **recommends** that:

Over the medium term, the Government (in collaboration with private sector expertise) investigate a system of funding whereby the costs are sheeted home more appropriately to those who use (or cost) the fire service (a risk-based approach) rather than the proposed system which is based on the sum insured for material damage.

2.0 Discussion

2.1 BusinessNZ has always maintained that most fire service services are in the nature of public goods and should, as such, be largely funded out of general taxation. This approach has been rejected by the Government, presumably on the ground of fiscal costs, rather than on sound public policy grounds.

2.2 In this respect it is useful to refer to the DIA original Fire Services Review Discussion Document (July 2015) which outlined (p.63) the benefits of general taxation (compared with an insurance-based levy). Funding from general taxation:

- ensures all taxpayers are required to contribute;

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

2.3 The discussion document 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.

2.4 It is noted that that the Internal Affairs Discussion Document (March 2017) outlines the principles underlying the proposed levy regime set out in the Fire and Emergency NZ Bill. Clause 69 of the Bill states that the purpose of the Bill's Part 3 is to provide for a levy that is:

- A stable source of funding to support Fire and Emergency NZ in the performance of functions and duties and in the exercise of powers under the Fire and Emergency NZ legislation;
- Universal, so that Fire and Emergency NZ's costs are generally shared among all who benefit from the potential to use Fire and Emergency NZ's services;
- Equitable, so that policyholders should generally pay a levy at a level commensurate with their use of, or benefit from the potential to use, Fire and Emergency NZ's services and with the risks associated with the activities that policyholders carry out (but without strict apportionment according to use, benefit, or risk having to be observed);
- Predictable, so that policy holders and levy payers are able to predict the amounts that they will need to pay and Fire and Emergency NZ is able to predict how much levy income it will receive;
- Flexible, so that the levy can adapt to changes in the use, benefit, or risk associated with those who benefit from the potential to use Fire and Emergency NZ's services; variations in Fire and Emergency NZ's costs; and changes to the expectations of the Crown and the strategic needs of Fire and Emergency NZ.

2.5 While BusinessNZ generally endorses the above principles, in reality the proposed funding regime does not meet many of them, at least in respect to bullet points 2, 3 and 5.

2.6 It is noted that on page 6, the Discussion Document clearly identifies that most people (no just insurance holders) benefit from the fire service activities with more likely to do so when the extended brief provided for under the new Fire and Emergency Services NZ Bill comes into force. *"The broadening of the levy base from fire to physical damage reflects Fire and emergency NZ's broader statutory mandate (as compared with that of the NZFS) and the broader range of services delivered. In the 2014/15 year, for example, 38 percent of NZFS responses were to non-fire incidents. Everyone benefits from the fire services' response to earthquakes, floods and storms, and hazardous substances emergencies, but currently only those with fire insurance pay for this activity."*

2.7 While there is no doubt that some levy payers would gain some short term benefit from the proposals outlined in the Discussion Document, the proposals raise two major issues. First, the transitional relief proposed is to be based on the amount (size) and percentage of the levy increase compared with current payments (with some thresholds). This will not necessarily bear any relation to the risk of using the fire service. Second, the proposed short-term relief will be funded by those businesses and households that choose to have insurance. In this sense, it could loosely be described as a cross-subsidy although to be fair, the proposed levy regime has little to do with risk in reality but instead can be seen as a blunt tax on total insurance paid.

2.8 If the Government is unwilling to revisit its proposals, a second best alternative would be to provide transitional relief via general taxation. Then, at least, those failing to gain relief would not, in effect, be having their levies increased to fund businesses that fall into the 'able to seek relief' category.

2.9 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. This helps ensure an efficient allocation of resources and is the way most insurance operates in NZ and indeed, around the world.

2.10 Given the above, BusinessNZ considers the Government should investigate a system of funding whereby the costs are sheeted home more appropriately to those who use (or cost) the fire service, adopting a risk-based approach rather than the proposed system based on the sum insured for material damage. The latter does not necessarily bear a strong, or indeed, any relationship to the services demanded of the fire service from time to time.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESSNZ

BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups EMA, Business Central, Canterbury Employers' Chamber of Commerce, and Employers Otago Southland
- Major Companies Group of New Zealand's largest businesses
- Gold Group of medium sized businesses
- Affiliated Industries Group of national industry associations
- ExportNZ representing New Zealand exporting enterprises
- ManufacturingNZ representing New Zealand manufacturing enterprises
- Sustainable Business Council of enterprises leading sustainable business practice
- BusinessNZ Energy Council of enterprises leading sustainable energy production and use
- Buy NZ Made representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ 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 and services for enterprise, BusinessNZ contributes to Government, 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 (OECD).

BusinessNZ family