



## **Kitten up a tree – who pays?**

New Zealand's fire service does a magnificent job fighting fires and responding to other emergencies as well as rescuing kittens stuck in trees.

The work of the NZ Fire Service is funded by a levy on fire insurance policies. This is an arrangement that has worked more or less adequately over the years, though it's somewhat unfair that fire insurance policyholders pay for the whole service for everyone. Meanwhile, rural fire authorities are funded by property rates with some cost recovery.

The funding of fire services is now in the spotlight given a number of structural changes that are about to take place. From next year the New Zealand Fire Service and all the rural fire authorities will unify into one organisation to fight fires and deliver emergency and other services.

It's proposed that this new enlarged organisation – Fire and Emergency New Zealand (FENZ) will be funded from a levy on material damage insurance contracts rather than only fire insurance contracts, together with a tiny contribution from Government as a nod to the fire service's wider public benefit.

The change will mean a significant increase in those insurance levy rates for policy holders – an increase of up to 40 percent for insurance on many policies. The increase will fall more heavily on commercial properties because the total levy amount will be uncapped.

This increase could result in commercial property owners under-insuring their properties in order to cope financially. Such under-insurance would bring increased risk for those property owners and their commercial dealings.

The FENZ plan brings into stark relief the unfairness of such a funding approach. It will mean the cost burden of fire and other services will be much greater and will be paid for principally by insurance policyholders. Enlarged services available to everyone will be paid for by an increased tax on the few.

In economists' terms, much of the service provided by the fire service is a public good. A public good is something that anyone can use and no-one can be excluded from using, providing benefit to any citizen – e.g. street lighting or a defence force or police force.

The correct way to pay for a public good is through general taxation, so everyone contributes to the benefit that is available to everyone. It is unfair to tax only certain insurance holders to pay for fire services accessible to anyone.

It's also more expensive to collect funding this way than through general taxation. Collecting funds by a narrow tax on insurance holders will incur additional collection costs and potentially lead to further levy rate increases.

Also, services that are funded out of general taxation get strict scrutiny by Treasury, keeping the operations honest. A services funded by a narrow tax will be subject to less scrutiny, raising the potential for gold-plating or otherwise inappropriate provision of services.

Because the proposed FENZ services will largely be of a public good nature, BusinessNZ believes the proposal for a funding system based on insurance levies should be replaced by funding from general taxation, along with a small contribution from fire and rescue service users via user charges.

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