

Submission by



to the

Department of Internal Affairs

on the

**Targeted Consultation Material for
Fire and Emergency New Zealand (FENZ) Levy Exemptions**

September 2022

**TARGETED ENGAGEMENT MATERIAL FOR
FIRE AND EMERGENCY NEW ZEALAND (FENZ) LEVY EXEMPTIONS
SUBMISSION BY BUSINESSNZ¹**

1.0 Introduction

- 1.1 BusinessNZ welcomes the opportunity to submit on the Department of Internal Affairs' *"Targeted Consultation Material for Fire and Emergency New Zealand Levy Exemptions"*.
- 1.2 BusinessNZ has made numerous submissions on Fire Services funding over recent years, 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 fire. For clarity and transparency, links to these submissions are provided in Appendix 2.²
- 1.3 In short, BusinessNZ continues to believe that significant elements of fire services should be funded out of general taxation given the public good nature associated with much of what the fire service does. Moreover, funding via a fire insurance levy takes no account of costs imposed on the fire service and fails to take account for free-riders (those without fire insurance) who impose additional costs on FENZ. In this respect, it is understood that a lot of government-owned property does not have fire insurance, or alternatively is exempt from, paying the levy.
- 1.4 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 fire insurance coverage. Large infrastructure investments, for example, often have little risk of needing the services the fire service provides - ports, airports, hydro-electricity generation structures, and the like. In such cases a levy on fire insurance is likely to bear no relationship to the direct and indirect costs imposed on FENZ.
- 1.5 Notwithstanding the above, it is noted that Cabinet in November last year approved two key changes to FENZ's funding regime.

¹ Background information on BusinessNZ is attached as Appendix 1.

² Links to Submissions by BusinessNZ to both the Department of Internal Affairs (DIA) and FENZ (and its predecessor – the NZ Fire Service Commission) are outlined in Appendix 2. This provides background material which provides substance to BusinessNZ's position on the funding of FENZ)

1. The FENZ levy will be charged on insurance policies for fire damage instead of policies for any material damage for example, floods or earthquakes, and
 2. The levy will be calculated on the "sum insured" rather than the "amount insured" in a contract, to align better with how insurance policies are written in NZ.
- 1.6 Given the above decisions, the latest targeted engagement looks specifically at the nature of current exemptions and future exemptions from the FENZ levy.
- 1.7 As might be expected, BusinessNZ's membership has mixed views on the merits or otherwise of some exemption changes outlined in the targeted consultation material as different scenarios will impact adversely on particular sectors. BusinessNZ has therefore encouraged individual members to make their own submissions raising issues specific to their areas of expertise. For this reason, BusinessNZ does not generally refer to specific instances where sectors or property should or should not be exempt from contributing to FENZ through a fire insurance levy. Rather, this submission focuses on the broad principles relating to whether particular sectors or property should or should not be exempt based on our analysis below.
- 1.8 In summary, BusinessNZ considers there are at least four potential reasons for providing at least partial exemptions from FENZ funding.
- First, some large residential/commercial or agricultural enterprises pose extremely low risk of ever using FENZ's services.
 - Second, some enterprises have assets which FENZ services could simply not protect. Probably the classic case is the underground Manapouri power station (owned and operated by Meridian Energy.)
 - Third, several major industrial sites have their own fire brigades, given the potential risk of fire and the need to have a very fast initial response team in place.
 - Fourth, in some cases, isolation may be a factor in determining whether FENZ can provide a timely response to some potential risks.

2.0 Discussion

- 2.1 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.

- 2.2 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 fire insurance. A fire-insurance model as proposed is a weak and inappropriate substitute compared with adopting a risk-based approach where levies would be based principally on the use of FENZ through a combination of a user-pays model, part-charges, and the Government paying a much larger contribution for the public good aspects of FENZ use.
- 2.3 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. See for example, reports by the New Zealand Institute of Economic Research (NZIER) and Castalia Limited.³
- 2.4 The above comments are clearly reinforced by numerous previous discussion documents from government agencies stating that expectations of the Fire Service have changed and will continue to change. FENZ (and its predecessor) services have adapted to changing community expectations and needs by responding to non-fire emergencies, such as swift water rescue, storm damage, medical emergencies, and motor vehicle extrications. These services are now part of the fire service. There are also more international responses, such as FENZ helping with International Urban Search and Rescue (USAR). The (previous) rural fire service has also joined in international responses to wildfires in places such as Australia, Canada and the United States of America. The consequence of these changed expectations is an increasing need for resources, training and ongoing support for non-fire related and international activities.
- 2.5 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.

³ "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.

- 2.6 Finally, there is the potential problem of “free-riders” (i.e. people who are covered by FENZ but who do not contribute to its funding in any way – either through not obtaining fire insurance or not paying for the services provided by FENZ given the general absence of user-charges.

Possible exemptions (or partial) exemption from FENZ levies?

- 2.7 Notwithstanding longstanding concerns about the proposed funding of FENZ, BusinessNZ fully accepts the need for exemptions from FENZ in isolated cases.
- 2.8 However, BusinessNZ considers the issue of levy exemptions presents difficulties. On the one hand, there are genuine and legitimate reasons why some industrial groups should be exempt or partially exempt from levy payments. On the other, the potential for gaming could be a problem unless exemptions are tightly controlled. Moreover, the transaction costs for insurers need to be considered as well given the greater the complexity, the greater the costs which will ultimately be passed on the those with fire insurance coverage.
- 2.9 At least four potential reasons can be put forward for providing at least a partial exemption from FENZ funding.
- 2.10 First, while some large residential/commercial or agricultural enterprises pose extremely low risk (and therefore potentially little cost) and are highly unlikely ever to need FENZ services, given their size they could nevertheless pay significant levies under the current fire insurance levy approach.
- 2.11 Second, some enterprises have assets which FENZ services could simply not protect. Probably the classic case is the underground Manapouri power station (owned and operated by Meridian Energy), where fire service provision by FENZ, or any other organisation, would simply be impractical.
- 2.12 Third, several major industrial sites have their own fire brigades, given the potential risk of fire and the need to have a very fast initial response team in place. Examples include airports which often have their own risk management teams ready to respond in the event of an emergency.
- 2.13 With such sites making their own emergency provision (including for fire responses), there is an arguable case for justifying at least some discount on potential fire levies (based simply on risk). Having a ready-response unit on site should (at least in theory) reduce the risk of calling on FENZ services.

- 2.14 Fourth, in some cases, isolation may be a factor in determining whether FENZ can provide a timely response to some potential risks. Again, whether there should/could be some form of discount and/or a possible exemption from levy payments needs to be considered.
- 2.15 It is noted that on page 4 (para 18) of the targeted consultation material there are a number of reasons why DIA considers that some property should be exempt from paying the FENZ levy, namely:
- If an insurance contract covers property that is inaccessible to Fire and Emergency – **BusinessNZ would agree.**
 - If an insured property has an **extremely** low risk of damage requiring a Fire and Emergency response – **BusinessNZ would agree.**
 - If a type of property is likely to be charged more than once, due to particularities about the way it is insured - **BusinessNZ would agree - and/or**
 - If there are significant costs or difficulties collecting the levy on the particular type of insurance contract which outweigh the benefits of increasing the levy base – **BusinessNZ would agree.**
- 2.16 While the above reasoning supports the points made in this submission, one additional rationale, not covered in the targeted consultation material, is the case where airports and large industrial sites have their own first response teams, including effective in-house fire services.
- 2.17 It would seem inequitable that such situations would not merit at least a partial levy exemption – perhaps to be determined on a case-by-case basis.
- 2.18 Notwithstanding the above points, BusinessNZ stands by its earlier assertion that predominantly funding FENZ through a levy on fire insurance is fundamentally flawed and takes no account of the risks and costs various businesses and households impose on FENZ, nor of the fact, as previously mentioned, that much FENZ activity does not involve dealing with fires.
- 2.19 Moreover, there is also a major free-rider problem in that businesses and property owners who may use FENZ's services do not contribute towards FENZ costs because they choose not to take out insurance against the risk of fire. The absence of any user-pays contribution exacerbates this problem while the Government continues to free-ride given a propensity to self-insure property while continuing to provide a miniscule amount of funding for the public good aspects of the FENZ.

Appendix One - Background information on BusinessNZ

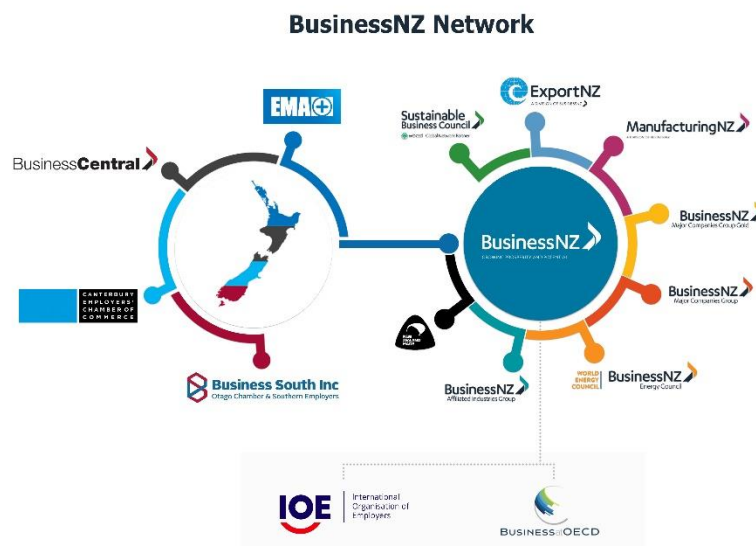


The BusinessNZ Network is New Zealand's largest business organisation, representing:

- Business groups [EMA](#), [Business Central](#), [Canterbury Employers' Chamber of Commerce](#), and [Business South](#)
- [BusinessNZ](#) policy and advocacy services
- [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

The BusinessNZ Network 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.

The BusinessNZ Network contributes to Government, tripartite working parties and international bodies including the International Labour Organisation ([ILO](#)), the International Organisation of Employers ([IOE](#)) and Business at OECD ([BIAC](#)).



Appendix Two – Previous Submissions by BusinessNZ on the Funding of the FENZ

1. Submission by BusinessNZ to the Department of Internal Affairs on the Fire Services Review: Discussion Document (July 2015).

https://www.businessnz.org.nz/_data/assets/pdf_file/0011/106220/Sub-Fire-Services-Review-Discussion-Document.pdf

2. Submission by BusinessNZ to the New Zealand 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).

https://www.businessnz.org.nz/_data/assets/pdf_file/0004/246676/161130-Levy-rates-fire-insurance-contracts.pdf

3. Submission by BusinessNZ to the Department of Internal Affairs (DIA) on the Proposals for Fire and Emergency NZ Regulations Discussion Document – March 2017 (April 2017)

https://www.businessnz.org.nz/_data/assets/pdf_file/0004/140782/170415-Proposals-for-Fire-and-Emergency-NZ-regulations.pdf

4. Submission by BusinessNZ to the Department of Internal Affairs (DIA) on the Fire and Emergency New Zealand Funding Review Consultation Document (February 2020).

https://www.businessnz.org.nz/_data/assets/pdf_file/0006/187071/200131-FENZ-Funding-Review-Consultation-Document.pdf