

4 February 2020

Fire Funding Review
Department of Internal Affairs
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FIRE AND EMERGENCY NEW ZEALAND FUNDING REVIEW

1. Kāpiti Coast District Council supports the Government's commitment to selecting a preferred funding model for Fire and Emergency, and appreciates the opportunity to submit on the Fire and Emergency New Zealand Funding Review.
2. Fire and Emergency provides a crucial set of services to New Zealand, and it is important that ample time is given for this review. With this in mind, Council considers that the timeframe for the Phase One consultation is inadequate. The consultation document was released in late November, and the submissions close on 5 February. While a two-and-a-half-month consultation period would normally be sufficient, the timeframe for this consultation is unsympathetic to the Christmas, New Year, and Summer holidays. Over this time period, staff across most organisations are on leave for sizeable periods of time, which means that many organisations have not had sufficient time to adequately review and respond to the consultation document. This is problematic for services as crucial as those provided by Fire and Emergency New Zealand.
3. It is important that local authorities, in particular, be given ample time to develop submissions to this funding review because local authorities are mentioned several times in the consultation document as potential collectors of rates and/or actual funders of the service. Council finds it ironic that the Government has centralised its provision of fire services, yet is considering decentralising its funding.
4. Council makes a number of recommendations in this submission, but one of Council's primary arguments is that a full range of funding options must be considered. For this reason, Council recommends that 'funding Fire and Emergency predominantly through general taxation' be included in the scope of this review (p6) because general taxation funding is one of the only options that meets all of the principles set out in Chapter 4 of the Consultation document. This is discussed further below.

What principles should be used to assess the options?

- Are there other principles the Government should consider?
 - Which principles are the most important to you and why?
5. Council agrees that the preferred funding regime should be universal, equitable, stable, predictable and flexible; however, Council notes that the consultation

document repeatedly refers to the importance of a 'fair and affordable' model, but the principle of affordability is not carried through.

6. As an example, the document states:

The Government wants to ensure Fire and Emergency can continue to deliver the fire and emergency services that New Zealanders need and expect. To do this, Fire and Emergency must have a stable and secure funding model. At the same time, the costs associated with this need to be shared in a way that is *fair and affordable* for households and businesses (page 7, emphasis added); and

In looking for better ways to fund Fire and Emergency, the Government is aware of the need to consider the costs in moving to a new system, both in terms of how it is set up and administered, and in how *affordable* the new model is for everyone (page 8, emphasis added).

7. Council contends that affordability should be added as an important principle for assessing options, and argues that affordability is one of the most important principles because the stability and predictability of the funding regime will be undermined if New Zealanders simply cannot afford to pay, regardless of the preferred funding model.

Businesses and households

- Do you agree with the summary of benefits to businesses and households?
 - Which option do you prefer and why?
 - What are the likely issues or challenges with implementing these options?
 - Is there another option or options the Government should consider?
8. Council agrees with the summary of benefits to businesses and households (page 13), but has a number of concerns regarding the options proposed.
9. Insurance-based approach - While the consultation document identifies a number of limitations to the existing insurance-based approach (page 7), Council would like to offer two additional limitations. First, an insurance-based approach can have a perverse effect in that it can incentivise some homeowners to underinsure their homes. Second, an insurance-based approach will not be able to collect levies from properties that are uninsurable, and this is becoming increasingly common for properties at risk to natural hazards.¹ In particular, we are aware of many Body Corporates in Wellington City either reducing their insurance cover or not re-insuring due to the high cost of insurance for properties in Wellington City.
10. The discussion document states that the insurance-based approach is not universal because only 85 to 87% of property is insured (page 13). If the number of insurable properties continues to decline further, then the insurance-based approach will not only continue to fail the universality principle, but also fail the stability and equitability principles. So too will the affordability principle (suggested above) fail should the status quo funding model be retained.

¹ For example, in an April 2019 report by *Radio New Zealand*, climate economist Belinda Storey stated that insurers are well aware of the risk posed by coastal hazards, and are already signalling those risks by increasing premiums or retreating from insurance altogether. See: Mulligan, Jesse. "Oceans advance, insurers retreat." *Afternoons with Jesse Mulligan*, 30 April 2019. Retrieved from <https://www.rnz.co.nz/national/programmes/afternoons/audio/2018692923/coastline-concern-insurance-costs>.

11. Property-based approach & property and use-based approach - As the discussion document states, a number of jurisdictions overseas are shifting towards a property-based approach or a property and use-based approach.
12. While there are clearly some benefits to a property-based approach or a property and use-based approach, there are some limitations we would like to raise.
13. Firstly, on the surface a property-based approach might appear to be more universal, equitable, and stable than an insurance-based approach; however, a property-based approach is unlikely to pass the affordability test because many property owners will experience this as an additional cost, particularly if they are currently not even paying the levy because they are underinsured or uninsured.
14. Secondly, on a more practical level, if the allocation of cost is required to be based on property use, it may be more difficult for all councils to maintain accurate information because property use may not be a factor in setting their current rates.
15. Thirdly, because the most likely collection mechanism would be for local authorities to collect this charge as a rate, local authorities would be held accountable for what is likely to be perceived by the property owners as "unaffordable rates increases" and/or "little to no value for money". As LGNZ note in their submission, collection by local authorities "diminishes public accountability and scrutiny as business and householders are unlikely to distinguish the relative share of their property taxes going to their council from FENZ. Any concerns people have about the level of property taxes will inevitably be raised with the local authority, not FENZ".
16. Fourthly, it is important to note that not all properties are equal in their fire and emergency risk. As a result, a property-based approach could create an inequity by overcharging properties with a low risk, and undercharging those with a high risk. For example, some commercial properties might house more flammable materials due to the nature of the business. This suggests that the property and use-based approach might be better than a straight property-based approach because 'use' could help to capture those properties with greater fire and emergency risks.
17. An alternative option to a property-based approach or a property and use-based approach is simply funding from general taxation (by way of a fixed charge per household, for example, or a more nuanced model that incorporates risk as discussed above). This approach would best meet all of the funding principles, particularly in regards to fire and emergency services that are not directly attributable to property owners. For example, according to the *Fire and Emergency New Zealand Annual Report for the year ended 30 June 2019*, nearly 20% of incidents attended (13,640 out of 79,921) were for medical emergencies. It would seem that the appropriate source of funding for these services would be via Vote Health. For such reasons, Council urges the Department of Internal Affairs to consider general taxation as a viable funding option in this review.

Motorists

- Do you agree with the summary of benefits to motorists?
- Which option do you prefer and why?
- What are the likely issues or challenges with implementing these options?
- Is there another option or options the Government should consider?

18. Council agrees with the summary of benefits to motorists (page 14). In regards, to the proposed options, Council questions whether the vehicle licencing-based approach is equitable as the consultation document suggests (page 14). Clearly there are non-vehicle owners who benefit from Fire and Emergency's transport-related services, even if the percentage is small.² This means that the vehicle-licensing based approach, in particular, would place a slightly disproportionate share of costs on vehicle owners. For this reason, Council maintains that an alternative option of simply funding from general taxation would best meet all of the funding principles.

19. Other potential sources of funding

- What do you like or dislike about these options?
- What are the likely issues or challenges with implementing these options?
- Is there another option or options the Government should consider?

20. Council has made clear in this submission that it strongly believes that the main source of funding should be from general taxation, a funding model that should and can be very simple and, presumably, could be implemented and initiated at low cost by the Inland Revenue Department. This should be in addition to Crown direct contributions and/or Fire and Emergency charging for some services (e.g. nuisance charges for repetitive false call-outs).

21. The Council does not support local authority contributions because this would need to be rates funded, again bringing back the arguments already discussed in paragraph 15 above.³

22. In addition, since the Fire and Emergency New Zealand Act 2017 absorbed rural fire authorities into Fire and Emergency, local authorities no longer have a direct role in fire and emergency services, which weakens the argument for local authority contributions.

Collection mechanisms

- Which option do you think is the most suitable and why?
- What do you like and/or dislike about the different collection mechanism options?

23. Once again, Council maintains that Fire and Emergency should be primarily funded from general taxation via the Inland Revenue Department.

24. However, notwithstanding the concerns raised in paragraph 15 above, if the review were to conclude that local authorities should levy and collect this rate on behalf of Fire and Emergency, Council would recommend that the rate should be collected by regional and unitary authorities, rather than city or district councils. Council contends that this would be more efficient since there are eleven regional councils and six unitary authorities in New Zealand, versus sixty-one city and district councils.

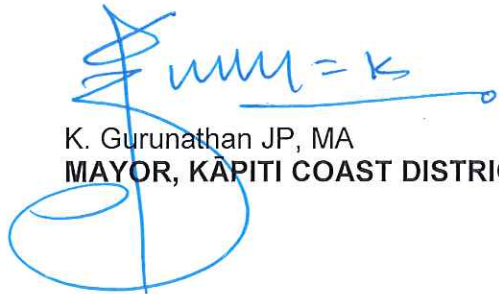
² The LGNZ submission refers to this as "generic public benefit".

³ Kapiti Coast District Council discussed the issues of rates affordability and council debt limits at length in our submissions to the Productivity Commission's Local Government Funding and Financing Inquiry. Those two submissions can be found online at https://www.kapiticoast.govt.nz/media/36433/kcdc-submission-on-lg-funding-and-financing_26-sept.pdf, and <https://www.kapiticoast.govt.nz/media/29909/190315-submission-to-productivity-commission-on-local-government-funding.pdf>.

Conclusion

25. Council supports Government's commitment to reviewing and selecting a principle based funding model for Fire and Emergency services.
26. Moreover, because there are wide benefits for local communities from Fire and Emergency services, this review provides an opportunity for local and central government collaboration so Council would be keen to discuss this submission directly with the Department of Internal Affairs at a mutually convenient time.
27. Thank you once again for the opportunity to submit on this review.

Yours sincerely



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