

Mayor and Councillors
COUNCIL

15 DECEMBER 2016

Meeting Status: **Public**

Purpose of Report: For Information

COUNCIL SUBMISSION ON THE PROPOSED 2017/18 LEVY FOR FUNDING FIRE AND EMERGENCY NEW ZEALAND (FENZ)

PURPOSE OF REPORT

- 1 This report presents the Council's submission on the proposed 2017/18 levy for funding the newly formed Fire and Emergency Services New Zealand (FENZ).

DELEGATION

- 2 The Council has the authority to consider this matter.

BACKGROUND

- 3 New Zealand's urban and rural fire services are currently managed by the New Zealand Fire Service (NZFS), National Rural Fire Authority (NRFA) and 38 Rural Fire Authorities (RFAs). These organisations are being amalgamated into a single organisation integrating fire and emergency services.
- 4 On the passing of the FENZ Bill which is currently before Parliament, the new organisation, FENZ will be established on 1 July 2017. At this time the existing organisations will cease to exist and their responsibilities will be transferred to FENZ.
- 5 The New Zealand Fire Service Commission is currently the overseeing authority controlling the NZFS, NRFA and RFAs. The Commission is now consulting on the proposed 2017/18 levy that it considers will be required to fund the operations of FENZ in its first year.
- 6 The Commission has sought only to propose funding for 2017/18 as it considers it has insufficient information to accurately forecast the levy requirement beyond 2017/18.
- 7 The closing date for submissions was 30 November. Due to this timing an Officer submission was provided and is presented to Council to note.

ISSUES AND OPTIONS

Proposed 2017/18 Levy

- 8 There is insufficient information in the consultation document to allow a robust analysis of the proposed levy amount for 2017/18 however a high-level review suggests that the levy is set too high so that more funding will be recouped than is necessary to meet the operating costs of FENZ.

- 9 From 2018 onwards, the Commission is proposing to expand the levy base by calculating the levy on material damage insurance contracts rather than only fire insurance, as well as extending the levy on motor vehicle insurance to include third party insurance. This means that unless the levy rate is lowered in 2018/19 the amount of levy collected in 2018/19 will be higher than in 2017/18.
- 10 Officers consider that the levy rate has been set too high in 2017/18, especially given the proposed increase in the levy base from 2018/19 onwards. It would be better to have a lower levy rate in 2017/18 until the levy base has been established in 2018/19.
- 11 The Council will no longer have to fund the Wellington Rural Fire Authority in the region of \$120,000 per year and instead is likely to experience an increase in annual insurance levies of around \$36,000 so from a financial view point the Council will be better off.
- 12 The Council's submission is attached as Appendix 1. The table references in the submission refer to table information in the full consultation document.
- 13 The full consultation document is attached as Appendix 2.

CONSIDERATIONS

Policy considerations

- 14 There are no policy considerations.

Legal considerations

- 15 There are no legal considerations at present.

Financial considerations

- 16 The financial implications of this report have been set out in the body of the report.

Tāngata whenua considerations

- 17 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

Degree of significance

- 18 This matter has a low level of significance under the Council Policy.

Engagement planning

- 19 There are no publicity issues to be considered at this stage.

Publicity

- 20 There are no publicity considerations at this stage.

RECOMMENDATIONS

- 21 That the Council notes the submission to the Fire Service on the proposed 2017/18 levy.

Report prepared by **Approved for submission** **Approved for submission**

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ATTACHMENTS

Appendix 1: Council submission to the NZ Fire Service Commission on the proposed 2017/18 fire levy

Appendix 2: Fire Levy Consultation Document

Submission on the Proposed 2017/18 Levy to Fund Fire and Emergency New Zealand (FENZ)

Submitted by Kāpiti Coast District Council

Kāpiti Coast District Council is very supportive of the overall proposal to combine the New Zealand Fire Services Commission and rural fire authorities into a single, unified, fit-for-purpose organisation. We also acknowledge the significant effort required to transition from the existing services to the new entity with its necessarily broader mandate and are supportive of an appropriate increase in funding to facilitate this.

While acknowledging that some increases in funding will be required, our view is that the proposed increase is higher than is necessary, based on the information presented in the consultation document.

We consider that there is insufficient information provided in the consultation document to make a full analysis of the proposed levy however some high-level commentary is possible.

Levy increase to repay government funding

In April 2016 Internal Affairs Minister Peter Dunne announced government funding of \$303 million over five years to combine urban and rural fire services into one organisation from mid-2017. At this time he also stated that from 2017/18, \$151 million would be repaid to the government over a four year period by increasing the fire levy.

However the consultation document indicates that the proposed increase in the fire levy will increase the amount of levy collected by \$115 million in 2017/18 alone (Table 1b). Furthermore, the Commission has already indicated a broadening of the levy base through its intention to calculate the levy on material damage insurance contracts rather than only fire insurance contracts, as well as to extend the levy on motor vehicle insurance to include third party insurance. This increase in the levy base means that the amount of levy collected in 2018/19 will be greater than for 2017/18 even if the levy is kept at the same rate.

On this evidence it is difficult to see how the 2017/18 levy has not been set too high. It would be more appropriate to have a more modest increase in the 2017/18 levy, especially given the increase in the levy base. Then a decision to increase or decrease the levy in 2018/19 could be made with a greater understanding of the impacts of the 2017/18 increases and the broadening of the levy base, as well as the progress being made in transitioning into a new entity.

Increase in levy rate versus increase in levy take

There are also discrepancies in terms of the proposed increase in the levy rate against the forecast increase in the levy take, as shown for the Residential fire levy in the table below:

	Category ¹	Current 2016/17 levy	Proposed 2017/18 levy	Increase in levy	Levy collected in 2016/17	Levy to be collected in 2017/18	Increase in levy collected
Residential		7.60 cents per \$100 insured	10.60 cents per \$100 insured	39%			
Maximum levy payable	Residential buildings	\$76.00	\$106.00	39%	\$133.8 million	\$177 million	32%
	Property	\$15.20	\$21.20	39%			

¹ insured amounts capped at \$100,000 for residential buildings and \$20,000 for residential building contents; non-residential insured amounts is uncapped

The above table shows that the proposed levy increase of 39% is forecast to yield only a 32% increase in the amount of levy collected. This could suggest an expectation that there will be some avoidance of the new levy by residential owners or it might be an understatement of the increase in levy take.

The same situation exists for non-residential insurance where a proposed increase in the levy of 39% is forecast to result only in a 31% increase in the amount of levy collected. Likewise the proposed increase in motor vehicle insurance from a flat rate of \$6.08 to \$8.45 (Table 1a) represents an increase of 39% whereas the forecast increase in motor vehicle insurance levy take is only 34%.

Further to this, the forecast expenditure requirement for FENZ in 2017/18 of \$534.8 million (Table 2) can reasonably be assumed to comprise \$439.6 million of existing expenditure (NZFS and NRFA costs and rural fire funded transfer) and \$95.2 million of new expenditure. This equates to a 22% increase in funding requirements from 2016/17 to 2017/18. Again this is at odds with the increases in the levy of 39% and the forecast increase in the amounts of levy collected of 31-34%.

Lack of clear and consistent information

It has already been noted that the consultation document contains insufficient information but it should also be noted that the information given is in places unclear and also contradictory.

For example, para 1.36 states that *'the Board proposes no change in service levels'* however Table 2 of the consultation document clearly identifies *'New on-going support expenditure (rural and volunteer)'* of \$39.4 million operating expenditure and \$8.8 million capital expenditure in 2017/18. Para 1.36 would have been better worded as "the Board proposes no decrease in service levels".

We support an appropriate increase in funding to areas of the fire service's operations that have been under-funded in the past.

Table 3 includes \$53.6 million of depreciation funding and yet Table 2 seeks funding for an equivalent amount of capital expenditure. The situation is not clear but we don't feel it is appropriate to fund both capital and depreciation through an operating levy.

Direct impact to Kāpiti Coast District Council and Community

From a financial viewpoint, the Council notes that it will be relieved of annual operating funding to the Wellington Rural Fire Authority of approximately \$120,000 with an increase in its fire insurance levy of around \$36,000. This represents a gain for the Council.

The converse of this is the impact on our community which will be relieved of \$120,000 in rates payments. For the approximately 20,500 households in the district this represents less than \$6 per household. However this has been replaced by an estimated \$38.37² per household (Table 1a), or \$787,000 for the community. This represents a significant increase in funding from our community.

The Council is broadly supportive of the efforts being made to more directly link the costs of the fire services to the people who use them the most however the initial high level analysis that has been possible suggests that the levy is being used to generate significantly more funding than the Commission has estimated will be required.

If the 2017/18 levy is at or near the amount currently proposed, we would expect there to be a substantial decrease in the levy from 2018/19 onwards.

The Kāpiti Coast District Council appreciates the opportunity to make this submission.

² Based on at least \$100,000 of residential building insurance, \$20,000 contents insurance and one vehicle per household.



Funding Fire and Emergency Services for all New Zealanders

PUBLIC CONSULTATION

*A public consultation paper on the setting of the rates of levy on
contracts of fire insurance for the 2017/18 financial year*

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*Paul Swain,
Chair of the
Board of the New
Zealand
Fire Service
Commission*

The levy – why it's time for a change

Firefighters are at the heart of our communities. Every day New Zealanders rely on 11,600 volunteer and 1,780 career firefighters to protect their lives and property in urban and rural environments.

For many years now firefighters have done far more than just fight fires. As our fire services have evolved, the public now calls on us to respond to a variety of incidents such as motor vehicle accidents, spills of hazardous materials, and natural disasters.

Come what may, New Zealand's firefighters stand ready to serve their communities.

After nationwide consultation, the way we deliver fire and emergency services is about to undergo the most significant change in 70 years, to ensure we have a fit for purpose organisation that can deliver the services our communities want and need.

From 1 July 2017, the New Zealand Fire Service (NZFS), National Rural Fire Authority (NRFA), and 38 Rural Fire Authorities (RFAs) will amalgamate to become one organisation – Fire and Emergency New Zealand (FENZ).

Non-fire incidents now account for a large and growing part of fire services' activities in New Zealand, yet those services remain principally funded through a fire insurance levy that hasn't been increased in almost a decade.

Structures dating from the 1940s and legislation from the 1970s are no longer adequate for fire services in this day and age. The recent Fire Services Review asked the sector what needed to change, and the feedback was clear – 21st century challenges require a 21st century solution.

The creation of FENZ will allow for a more coordinated fire and emergency service across New Zealand. Firefighters will have the legal mandate to do the additional jobs the public now expects from them, thanks to new legislation currently before Parliament.

But bringing 626 operational units, and about 14,000 firefighters and support staff together is not a simple or quick task. We need to invest the right amount of time and money to ensure we get it right. The end result will be a unified fire service that can adapt as the risks and needs across our communities change.

In the 2017/18 financial year, both the urban and rural services that FENZ will provide will be funded from the fire levy, alongside contributions from the Government.

To maintain the current level of services provided, and establish FENZ over the next four years, the Board is proposing to increase the rates of levy.

For the average home owner, the increase equates to an extra \$36.00 a year, or around 70 cents per week.

In return the public will see the establishment of a modern, fit-for-purpose fire and emergency organisation that is strongly connected to its communities. Among other things, this will enable the establishment of local committees to advise the Board on risks in their area and the level of response required.

It will also fund better resources for volunteers, strengthen rural fire services and build capability in specialist areas like hazardous materials.

The Board is aware that for New Zealanders, every dollar counts. However, there has not been an increase in the levy for eight years. An increase is now required to bring New Zealand's fire services together, and create an organisation that has the legal mandate and necessary funding to continue providing the expanded fire and emergency response our communities expect.

This document outlines the Board's proposal, and the consideration we have given to alternatives. We welcome your feedback on the proposal as we take the next steps towards unifying fire services for a safer New Zealand.

Hon Paul Swain
Chair

This section outlines the reasons for the proposed increase to the levy rates to fund Fire and Emergency New Zealand

Levy changes to support new fire services

A unified fire organisation to be set up from 1 July 2017

- 1.1. A review of New Zealand's fire services was completed in 2015. In response to its findings, the Government decided to set up a unified, national organisation that integrates urban and rural fire services.
- 1.2. New Zealand's fire services are currently provided by the New Zealand Fire Service Commission (the Commission) and rural fire authorities. The Commission includes the New Zealand Fire Service (NZFS) and the National Rural Fire Authority (NRFA).
- 1.3. The Commission and rural fire authorities will be amalgamated into the new unified organisation, to be called Fire and Emergency New Zealand (FENZ).
- 1.4. Cabinet has agreed that FENZ would require additional funding for:
 - a. the absorption of rural fire costs (estimated at \$22 million per annum);
 - b. new ongoing operating and capital funding (\$191 million over four years) to:
 - i. address gaps in rural fire services, such as fire reduction activities, urgent capital upgrades, personal protective equipment, training etc.;
 - ii. support local committees;
 - iii. provide additional support for volunteers including incentives for employers and volunteers, and wellbeing initiatives; and
 - iv. scale up the corporate functions, (e.g. finance, information and communications) required in a larger organisation.
 - c. transition costs (\$112 million to be repaid through levy over ten years).
- 1.5. FENZ is intended to deliver more flexible fire and emergency services, with resources used more efficiently to better support firefighters. Local committees will be established to ensure FENZ provides services that are closely matched to community risks and needs.
- 1.6. The Fire and Emergency New Zealand Bill was introduced into Parliament in June 2016. A transition programme is working to set up FENZ from 1 July 2017.

Review identified problems with changing expectations and funding

- 1.7. The review, and earlier reviews, identified issues with the changing role and expectations of fire services, and with the funding model for fire services.
- 1.8. For some time now, the public has called on the fire services to respond to a wide range of non-fire emergencies, as well as the core activities of firefighting and fire prevention. Firefighters are called out to medical emergencies, flooding, spills of hazardous substances, and road accidents.
- 1.9. Non-fire activity is an increasing part of firefighters' work. For example, attendance at vehicle accidents has increased by 15 percent in the past four years.

- 1.10. These activities are resource intensive. They require specialist equipment, training, and increasingly, a greater focus on health and safety to protect the public and our people.
- 1.11. Despite the considerable expansion in the role of fire services, the funding model has not substantively changed since 1994. Funding does not align with the range of services provided for the public good, or with the use of services. This creates inequity between those who fund the fire services (people and entities with fire insurance) and those who use fire services (almost everyone). In addition there has been a prolonged and systemic under-investment in rural fire.

Multiple funding sources replaced by one source of funding for FENZ

- 1.12. Funding for the Commission currently comes from:
 - a levy on contracts of fire insurance
 - false alarms
 - cost recovery from hazardous substances and vegetation fires outside of urban fire districts
 - interest and surcharge (from levy)
 - interest (from balances)
 - design review unit
- 1.13. Funding for rural fire services, provided by Rural Fire Authorities, currently comes from:
 - local government through rates
 - the Rural Fire Grant Assistance Scheme
 - the Department of Conservation
 - forest owners and land holders through levies
 - cost recovery from people responsible for rural fires
- 1.14. FENZ will be primarily funded by a modernised and expanded levy on insurance contracts. Together with other sources of funding, such as a Government contribution towards the cost of non-fire public good activity, it is anticipated that FENZ will have a sustainable, stable and equitable funding system to enable it to deliver services to all New Zealanders.
- 1.15. There will no longer be a need for multiple, separate, funding streams for rural fire services, such as cost recovery, the Rural Fire Fighting Fund, current rural fire funding and levies on forest owners.

Levy on insurance contracts will be modernised and expanded

- 1.16. The Fire and Emergency New Zealand Bill will amend the mechanism for calculating the levy, making it fairer, and reflecting the wider scope of activities undertaken by our fire services.
- 1.17. The changes will simplify the levy, making it easier to administer, and making it harder to avoid paying the levy.

- 1.18. Modernising the levy will be achieved by:
- enlarging the levy base by calculating the levy on material damage¹ insurance contracts rather than only fire insurance contracts
 - decreasing the types of property currently exempt from the levy
 - potentially applying different rates of levy to residential and non-residential property
 - potentially increasing the cap on the residential levy to reflect changes in property values.

Consultation programme for the next three years

- 1.19. It was initially thought that consultation for the 2017/18 financial year levy rates would be undertaken on the basis of the new funding arrangements, as set out in 1.18 above.
- 1.20. However, given current information limitations, applying the new funding arrangements in the 2017/18 financial year would involve significant risk that the levy would be set at a rate that generated too little income for FENZ to deliver its activities. Conversely a levy set too high would impact unnecessarily on policy holders. Furthermore, implementing major changes in the 2017/18 financial year would increase costs for insurers (and consequently further raise the cost of insurance).
- 1.21. Therefore the Minister of Internal Affairs agreed to delay the full implementation of the new funding arrangements until 1 July 2018.
- 1.22. The consultation for the 2018/19 levy will include all aspects of the new funding arrangements that will come into effect on 1 July 2018, such as:
- assessing levy on material damage insurance rather than fire insurance
 - assessing levy on third party motor vehicle insurance
 - differential rates for residential and non-residential policies
 - revised caps for residential property and personal property; and
 - new exemptions from the levy (if made under regulations).
- 1.23. In the financial year commencing 1 July 2019 and for the two financial years that follow, three-year rates will be applied with full implementation of the levy provisions contained in the new legislation.
- 1.24. There will be public consultation when the rates are set, making the funding and costs of fire services more transparent to the public.
- This consultation is on the rates of the levy that will fund FENZ in 2017/18***
- 1.25. The purpose of this document is to consult the public on the rates of levy for the first year of FENZ, that is, 1 July 2017 to 30 June 2018.
- 1.26. The Board will consider submissions before recommending the proposed levy rates to the Minister of Internal Affairs. After considering the proposal, the Minister will present a recommendation to Cabinet. The approved rates will then be set by an Order in Council.

¹ Material damage includes damage through fire, flood, burglary, earthquake or similar events

Proposed levy rates to fund all activities and costs of new organisation

- 1.27. In the 2017/18 year, the levy funding for FENZ, will continue to be assessed on contracts of fire insurance (rather than material damage insurance). The current exemptions set out in the Fire Service Act 1975 will remain in place.
- 1.28. The level of funding, that is, the rate of levy, has not increased for eight years, putting our fire services under increasing pressure. The level of funding does not reflect increases in inflation over the last eight years or the wider range of services now undertaken.
- 1.29. In recent years, the additional activities that fire services are called on to perform have made up an increasing proportion of the overall workload. For example, in 2014/15 the proportion of non-fire incidents which NZFS responded to was 38 percent of the total, up from 31 percent five years earlier.
- 1.30. Medical emergencies have been a major driver of growth in non-fire responses, mostly due to partnerships between the NZFS and ambulance services (such as the Memorandum of Understanding with St John Ambulance).
- 1.31. It is anticipated that the need to respond to this wider range of incidents will continue to grow as the public's expectation of modern fire services evolves.
- 1.32. The levy rate proposed will generate revenue to fund fire services to perform the increasing range and volume of activities expected by the public.
- 1.33. In addition, the levy rates will fund the ongoing support activities expected of the new organisation, FENZ. These activities include such things as investment in rural fire services, and better support for volunteers.
- 1.34. Given the scale of change required to create FENZ, the Board considered that changes to the types and level of service should not be considered in the 2017/18 year.
- 1.35. The Board considers there is insufficient information to accurately set differential levy rates and/or levy caps for the residential and non-residential sectors in the 2017/18 financial year. Furthermore, the Board considers that these changes are better considered alongside the other changes such as moving to material damage and the reduction of exemptions in the 2018/19 year consultation.
- 1.36. As the Board proposes no change in service levels and no changes in levy caps or differential levy rates, the Board has determined to undertake public consultation on a single proposal for the 2017/18 levy rates.

This section outlines the Board's proposed rates of levy

Board's proposal to set the rates of levy

2.1. The Board proposes that for contracts of fire insurance made in the year commencing 1 July 2017, the rates of levy from 1 July 2017 be set as outlined in Table 1a.

Table 1a: The Board's proposed rates of levy

Category	Current 2016/17 levy	Proposed 2017/18 levy	Difference
Residential	7.60 cents per \$100 insured (insured amounts capped at \$100,000 for residential buildings and \$20,000 for contents) Maximum levy payable per house is \$76 and \$15.20 for personal property	10.60 cents per \$100 insured (insured amounts capped at \$100,000 for residential buildings and \$20,000 for contents) Maximum levy payable per house is \$106 and \$21.20 for personal property	An increase of 3.0 cents per \$100 insured (a maximum increase of \$30.00 per annum for residential buildings and \$6.00 per annum for contents)
Non residential	7.60 cents per \$100 insured (uncapped)	10.60 cents per \$100 insured (uncapped)	An increase of 3.0 cents per \$100 insured (e.g. an additional \$3,000 per annum for those with insurance of \$10 million)
Motor vehicles (less than 3.5 tonne)	\$6.08 (flat rate)	\$8.45 (flat rate)	An increase of \$2.37 per vehicle per annum

2.2. The Board has considered:

- The estimated cost of operating FENZ in the 2017/18 year (see Table 2);
- Cabinet's decision on new funding arrangements for FENZ (April 2016)²;
- Letter of Expectations from the Minister of Internal Affairs (May 2016)³;
- The cost of transition to FENZ;
- Repayment of the capital injection from the Crown that funds the cost of transition (see Table 5);
- The estimated Crown contribution for non-fire public good activity;
- Sundry revenue projected in the 2017/18 financial year (see Table 7); and
- The availability of property and motor vehicle insurance data.

² Cabinet Minute: EGI-16-MIN-0064 at www.dia.govt.nz/Fire-Services-Transition

³ Refer to www.dia.govt.nz/Fire-Services-Transition

Table 1b: Forecast impact of the Board's proposed rates of levy on categories

Levy collected	Current 2016/17 levy		Proposed 2017/18 levy		Difference	
	Amount (\$million)	Percentage of total levy take	Amount of total levy take	Percentage of total levy take	Amount	Percentage
Residential	133.8	36.4%	177.0	36.6%	43.2	0.2%
Non residential	217.7	59.2%	284.1	58.8%	66.4	-0.4%
Motor vehicles (less than 3.5 tonne)	16.4	4.5%	22.0	4.6%	5.6	0.1%
Total	367.9	100%	483.1	100%	115.2	0%

2.3. Table 1b above demonstrates the percentages of levy paid under the current and proposed rates remain largely consistent.

This section outlines matters considered by the Board in setting the proposed rates of levy

Considerations in proposing the levy rates

- 3.1. The cost of FENZ for its first year (commencing 1 July 2017) is forecast as \$534.8 million (see Table 2). This includes the costs of existing fire services and the additional costs approved by Cabinet for the change to a unified fire service organisation, including more support for volunteers and rural fire.
- 3.2. After taking account of other funding sources for FENZ (see Table 7), it is estimated that \$483.1 million of levy funding will be needed in the financial year from 1 July 2017.

Different funding options considered and discounted

- 3.3. The Board considered a range of funding options to avoid or minimise a levy rates increase. However after analysis of the timing, costs, levels of revenue and authorisation needed, the Board determined these options were not feasible and therefore not appropriate for consultation.
- 3.4. The following options were considered and discounted.
 - 3.4.1. **Sale and lease back of assets:** While this would lower short term costs, it would embed long term financing charges in the form of lease payments, putting greater burden on future levy payers and weakening the Board's ability to incur debt in the future.
 - 3.4.2. **Delaying or rephasing capital expenditure:** The Board operates a capital programme of approximately \$50 million per annum to maintain its operational assets (valued at \$700 million). Approximately \$40 million of the \$50 million relates to operational fleet and fire stations (including the Christchurch rebuild and seismic strengthening of stations). Health and safety considerations contributed to the Board's decision against delaying or rephasing capital expenditure because:
 - **deferral of the fleet programme** would continue to increase the average age (currently 14.9 years), increase maintenance cost and the likelihood of breakdowns, and impact on vehicle service providers and vehicle suppliers. Deferring replacement would increase costs in the future.
 - **deferral of the property programme** would extend the rebuild of Christchurch stations beyond the timeframe agreed with the Christchurch community, and delay the repositioning of Christchurch stations according to the risk profile of the community. It would leave firefighters in temporary accommodation. Deferring seismic strengthening would mean some stations would not meet earthquake standards in timeframes set by councils and may have to be closed.

- 3.4.3. **Reducing operating costs:** the Board believes that in the short term there is no ability to reduce costs without compromising service or increasing cost in the long term, due to the high fixed cost base (people, stations, appliances).
- 3.4.4. **Borrowing to support a lower rate of levy:** While Cabinet has agreed that FENZ would be funded by increased levy, the Board did consider whether borrowing money would support a reduced levy increase. However, the Board's current borrowing powers are insufficient to meet the increased costs. Any additional borrowing facility would require an increase in levy to repay the cost of borrowing, and approval from the Government.

Impact of broader factors was considered

- 3.5. The Board also considered broader factors that affect the amount of levy required and generated, and the impact of these factors on policy holders:
- **Economic:** The estimated growth in residential housing stock over the coming years, the forecast increase in motor vehicle numbers, and economic growth⁴ were considered insufficient to ensure the required level of growth in the levy base;
 - **Differential levy rates:** There is information to determine the impact of differential levy rates on residential and non-residential policy holders. Any differentiation in levy rates would need to be done in conjunction with a revision of the residential levy cap. Therefore the same levy rate should continue to be applied to both residential and non-residential property (and the current residential cap would remain the same); and
 - **Public good activity:** While there is an increasing public demand for non-fire responses, this would be funded through the Crown public good contribution (up to \$10 million in 2017/18 financial year), managed through baseline, within current organisational capacity and subsidised by other payers.
- 3.6. Furthermore the Board considered the scale of change for both the existing Commission and rural fire authorities to create FENZ, and believes it is more important that FENZ's focus is on managing this change rather than making further changes to the operating model in the 2017/18 year.

Proposed approach for 2017/18

- 3.7. Having considered the above factors, the Board decided that the only feasible option was to fund its costs in the 2017/18 financial year through a proposed increase in the rates of levy, as outlined in Table 1a.

⁴ Data from the Reserve Bank, Treasury, Statistics New Zealand, commercial banks

Proposed rate is calculated on the levy base of property and vehicle assets

- 3.8. Operating FENZ for the year commencing 1 July 2017 is estimated to cost \$534.8 million⁵. This cost includes the amalgamated urban and rural fire services, the cost of transition and the first repayment of the capital injection.
- 3.9. After allowing for other sources of funding the Board must generate \$483.1 million⁶ from levy to operate FENZ.
- 3.10. Levy is generated on the value of insured property which includes motor vehicles over 3.5 tonne. Levy on this property is expressed as a rate per \$100 of insured value.
- 3.11. Levy on motor vehicles under 3.5 tonne is expressed as a flat rate of \$6.08 per vehicle.
- 3.12. Levy collection data shows that levy is calculated on a common base⁷ of approximately \$484.2 billion of assets insured against fire.

Levy collection is affected by the time lag in levy payments

- 3.13. Consideration must be given to the fact that the overall amount of levy that will be collected in the 2017/18 financial year is affected by the timing of the renewal of insurance contracts.
- 3.14. Levy is paid to the Board on the 15th day of the second month following the contract being entered. Therefore levy at the new proposed rates will not be received until 15 September 2017. Before this date levy will be paid at the existing rates.
- 3.15. In addition historic data shows that a higher than average proportion of levy is received in each of the first two months of the financial year. Fire insurance contracts covering approximately 20 percent of the levy base are renewed before the beginning of July, leading to approximately 20 percent of the levy revenue being received in the first two months of the financial year.
- 3.16. Therefore the levy collected in the first two months will be assessed on approximately twenty percent of the levy base, (\$100.3 billion of assets at 7.6 cents per \$100). The levy collected for the next 10 months will be assessed on \$383.9 billion of assets at the new rate.

⁵ See Table 2: FENZ capital and operating expenditure in 2017/18

⁶ See Table 7: FENZ costs and funding for its first year

⁷ Common base is the amalgamation of the property and vehicle asset bases.

- 3.17. The first two months of the 2017/18 financial year are forecast to generate \$76.23 million of levy (\$100.3 billion of assets multiplied by 7.6 cent per \$100).
- 3.18. FENZ is forecast to require funding of \$483.1 million in the 2017/18 financial year. Therefore the remaining \$406.87 million of levy must be generated in the remaining 10 months of the financial year from \$383.9 billion of assets.

Levy rate set for property insurance

- 3.19. To generate this levy, the Board proposes a rate of 10.60 cents per \$100, which is the financial result of \$406.87 million divided by \$383.9 billion.

Levy rate expressed differently for motor vehicle insurance

- 3.20. The amount of levy that will be generated from motor vehicle insurance forms part of the total amount of levy generated from the common asset base.
- 3.21. However the levy rate for motor vehicles (under 3.5 tonne) is expressed differently from the rate on property insurance, as the rate for motor vehicle insurance is expressed as a flat rate per vehicle.
- 3.22. To maintain the current level of service and to contribute to the new ongoing support costs of FENZ, the Board proposes to increase the flat rate by the same proportion as proposed for the levy on property.
- 3.23. The flat rate will increase to \$8.45 per vehicle, an increase of \$2.37 per year or approximately 5 cents a week.

This appendix outlines the forecast cost of FENZ in its first year

Appendix 1: The cost of operating FENZ

4.1. The cost of FENZ for its first year (commencing 1 July 2017) is forecast as \$534.8 million, made up of capital and operating expenditure as shown in Table 2.

Table 2: Forecast FENZ capital and operating expenditure in 2017/18

\$ millions	2017/18 financial year		
	Operating expenditure	Capital expenditure	Total
NZFS and NRFA costs	364.0	53.6	417.6
Rural fire funded transfer	22.0		22.0
New ongoing support expenditure (rural and volunteer)	39.4	8.8	48.2
Transition costs	26.6	11.4	38.0
Repayment of capital injection	9.0		9.0
Total	461.0	73.8⁸	534.8

- 4.2. The estimated costs for the operating and capital expenditure were developed by the Board with the support of specialist financial skills from KPMG and PricewaterhouseCoopers. Consideration was given to the level of funding required for FENZ to deliver its functions in a cost-efficient way.
- 4.3. The current operating costs of the Commission (NZFS and NRFA) and the estimated costs for rural fire will be transferred to FENZ on 1 July 2017.
- 4.4. The estimated cost of \$22 million for rural staff and their associated training was determined through a costing exercise undertaken by MartinJenkins in 2015. The actual costs will form part of the ongoing baseline of FENZ.
- 4.5. Cabinet approved forecast operating costs of FENZ made up of:
- \$303 million for change costs⁹, comprising:
 - \$191.2 million for additional operating costs over four years from the 2017/18 financial year; and
 - up to \$112 million transition costs over four years from the 2016/17 financial year, funded by a repayable capital injection.
 - The transfer to the baseline¹⁰ for FENZ on 1 July 2017 of:
 - the estimated rural fire baseline of \$22 million; and
 - the Commission's baseline of \$417.6 million (see Table 3)

⁸ See Table 6: FENZ estimated capital expenditure in 2017/18

⁹ Cabinet Minute: EGI-16-MIN-0064, paragraph 3, www.dia.govt.nz/Fire-Services-Transition

¹⁰ Cabinet Minute: EGI-16-MIN-0064, paragraph 22.1, <http://www.dia.govt.nz/Fire-Services-Transition>

- Repayment of the capital injection¹¹, starting with \$9 million in the 2017/18 financial year.
- 4.6. Two reviews in the 2016/17 financial year will inform funding decisions for FENZ for future years. The first is a baseline review of the operation and performance of the Commission to consider the effectiveness and efficiency of current services, functions, structures and costs. The second is a comprehensive analysis of the costs of rural fire services.
- 4.7. The Commission's baseline costs of \$417.6 million are made up of the running costs of the NZFS and the NRFA.

Table 3: Commission baseline (NZFS and NRFA costs)

	\$ millions
Employee and volunteer benefits expenditure	268.2
Finance	1.0
Fleet running	15.2
Information & Communications Technology	16.2
Occupancy (Property maintenance, rates, power etc, for over 400 properties)	17.2
Operational clothing, equipment and consumables	1.4
Travel (mainly for volunteer and career operational training)	10.0
Publicity and advertising – primarily Fire Safety	4.8
Depreciation	53.6
Other (Includes grants and donations, insurance, professional fees, office equipment, consumables)	30.0
Total	\$417.6

- 4.8. New ongoing support costs of \$191.2 million have been forecast over four years.

¹¹ Cabinet Minute: EGI-16-MIN-0064, paragraph 22.3, <http://www.dia.govt.nz/Fire-Services-Transition>

Table 4: New ongoing support costs over four years

\$ millions	2017/18	2018/19	2019/20	2020/21	Total
Operating expenditure	39.4	32.5	41.5	42.5	155.9
Capital expenditure	8.8	14.9	5.8	5.8	35.3
Total	48.2	47.4	47.3	48.3	191.2

4.9. The \$48.2 million of costs (operating and capital expenditure) expected to be incurred in the 2017/18 financial year will be spent on providing more support for:

- closing rural fire service gaps in areas such as fleet, equipment and property maintenance, protective equipment and clothing and a national rural fire reduction programme;
- volunteers, in areas such as recognition programmes for both volunteers and employers, and wellbeing initiatives for volunteers; and
- supporting local committees and enhancing the corporate functions required in a larger organisation.

4.10. These costs will be funded in part through an increase in the rates of levy.

4.11. The indicative allocation of transition costs over four years is shown in Table 5.

Table 5: Expected allocation of transition costs

\$ millions	2016/17	2017/18	2018/19	2019/20	Total
Funded by repayable capital injection	27.2	38.0	28.1	18.7	112.0

4.12. An estimation of up to \$38 million of transition costs are expected to be incurred in the 2017/18 financial year. This will fund activities such as:

- d. establishing local committees
- e. supporting workforce
- f. stakeholder engagement
- g. asset management and due diligence
- h. ICT due diligence, strategy and planning
- i. operational systems and process
- j. the transition programme office.

4.13. FENZ is forecast to incur capital expenditure of \$73.8 million in the 2017/18 financial year.

Table 6: FENZ estimated capital expenditure in 2017/18

\$ millions	Current activities	Transition	New ongoing support	Total
Fleet Expenditure	15.9		2.0	17.9
Property Expenditure (including seismic strengthening and Christchurch rebuild)	23.0		1.7	24.7
ICT Expenditure	3.8	11.4	0.2	15.4
Plant and Equipment Expenditure	2.0		4.9	6.9
Regional Expenditure (such as minor property works and plant)	1.6			1.6
Strategic Projects Expenditure (such as leadership training and ICT platforms)	7.3			7.3
Total	53.6	11.4	8.8	73.8

This Appendix outlines the funding arrangements for FENZ in its first year

Appendix 2: FENZ funding arrangements

5.1. The cost of operating FENZ for the year commencing 1 July 2017 is estimated at \$534.8 million.¹²

5.2. In addition to the levy, FENZ will have three other sources of funding in the 2017/18 financial year:

- a repayable capital injection from the Crown of up to \$38 million¹³ to fund transition (part of the Crown capital injection of up to \$112 million over four years);
- a Public Good contribution from the Government of up to \$10 million, subject to budget processes, to fund non-fire public good activities such as rescues, responding to floods and other emergencies; and
- other income generated by FENZ (estimated to be \$3.7 million in the 2017/18 financial year).

5.3. Table 7 sets out the income required from the levy (\$483.1 million) after allowing for the three other sources of funding available.

Table 7: FENZ costs and funding for its first year

2017/18	\$ millions
Cost of operating FENZ (see Table 2)	534.8
Funding from	
Repayable capital injection	38.0
Crown contribution (subject to annual budget process)	10.0
Other income and cost recoveries	3.7
Remaining funding – required from levy	483.1

¹² See Table 2: FENZ capital and operating expenditure in 2017/18

¹³ See Table 5: Expected allocation of transition costs

This appendix lists the proposed activities of Fire and Emergency New Zealand

Appendix 3: Objectives and functions of FENZ

Under the Fire and Emergency New Zealand Bill, the Board must consult on the activities FENZ proposes to undertake in the 2017/18 financial year. The functions FENZ must and may undertake are set out in the Bill.

- 6.1. FENZ will integrate the existing operational and administrative activities of the Commission (including the NZFS and the NRFA), and rural fire authorities.
- 6.2. FENZ's main objective is to reduce the incidence of unwanted fire and the associated risk to life and property. In relation to FENZ's main functions, its objectives are protecting and preserving life, preventing or limiting injury, and preventing or limiting damage to property, land, and the environment.
- 6.3. The Bill sets out the main functions FENZ must perform across urban and rural areas. These functions include promoting fire safety, providing fire prevention, response, and suppression services, responding to hazardous substances incidents, rescuing trapped people (example: from traffic accidents), and urban search and rescue.
- 6.4. FENZ also must perform other functions under the Bill, for example, supporting volunteers, setting up and supporting local committees, administering the levy, carrying out fire control measures such as permitting and setting fire plans. In addition, FENZ has functions and powers under other Acts, such as providing readiness and response for Civil Defence emergencies, or providing advice to building consent authorities under the Building Act 2004.
- 6.5. The Bill also includes additional functions which FENZ may carry out. FENZ may only carry out these functions to the extent FENZ has the capability and capacity to do so, and it maintains its capability and capacity to perform its main functions efficiently and effectively. Additional functions include responding to medical emergencies, severe weather events, maritime incidents, attending traffic accidents, performing technical rescues (for example, line rescues), responding to substance emergencies, and promoting safe practices for hazardous substance handling.
- 6.6. We anticipate that with the integration of the urban and rural fire services' functions FENZ will continue to be ready for and respond to fires and other emergencies much as urban and rural firefighters currently do. For example firefighters and brigades who currently respond to medical emergencies will carry on doing this.

This glossary explains the terms used in this document

Glossary

Term	Definition
Board	The Board of the Commission, and once the new legislation is in force, of Fire and Emergency New Zealand.
Cap	An upper limit on either the amount of levy paid or the amount on which levy is calculated.
Commission	The New Zealand Fire Service Commission: the Crown entity responsible for delivering certain fire and emergency services.
Contracts of fire insurance	Defined under section 2(1) of the Fire Service Act 1975 as an agreement whereby any asset is insured against loss or damage from fire, whether the agreement includes other risks or not; but does not include any contract of marine insurance or any contract of reinsurance.
Differential levy rates	The setting of different rates of levy for residential and non-residential property.
Exemptions	Assets specified in the Fire Service Act 1975 or through regulations that are not assessable for levy.
FENZ	Fire and Emergency New Zealand.
Fire services	The delivery of fire responses and fire prevention.
Levy	The amount payable on a contract of fire insurance.
Levy base	The value of insured assets in New Zealand on which levy is payable.
Levy rates	The rates applied to asset value to calculate the amount of levy payable.
Material damage insurance	Insurance covering physical loss or damage to property e.g. through fire, flood, burglary, earthquake or other similar events.
NRFA	The National Rural Fire Authority: a function of the Commission that provides coordination and support to the rural fire sector.
NZFS	The New Zealand Fire Service: a part of the Commission.
Other income	Income that is not derived from levy, for example, interest income, fees for alarm monitoring.
Public good contribution	Funding provided by the Crown for non-fire public good activity, such as responding to floods, or rescuing animals.
Rural Fire Authorities	Bodies responsible for fire control under the Forest and Rural Fires Act 1977.
Transition	Establishing Fire and Emergency New Zealand by amalgamating the Commission and Rural Fire Authorities.

Submission form

This form is for submissions on the rates of levy on fire insurance contracts and on FENZ's proposed activities for the 2017/18 financial year. We will consider submissions before reporting to Government with recommendations.

This document and this submission form are also on the website www.firelevy.co.nz

Please return your submission by 5pm 30 November 2016

By email:	levyconsultation@fire.org.nz
Or by mail:	Levy Consultation team New Zealand Fire Service Commission PO Box 2133 Wellington 6140

This submission was completed by:

Name:	
Address:	
Email:	
On behalf of:	<input type="checkbox"/> An individual <input type="checkbox"/> A group or organisation (please specify) _____ <input type="checkbox"/> Other (please specify) _____
Position:	

Official Information Act considerations

Your submission will be held by the Board. Submissions may be subject to a request to the Board under the Official Information Act 1982.

Please let us know below if you object to the release of any information in your submission. In particular, let us know which part(s) you consider should be withheld, and any reason(s) for withholding the information, for example, personal details, or commercial information. We will consider all such objections when responding to requests under the Official Information Act.

Please note any objections here:

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Proposed rates of levy for the 2017/18 year

	Proposed 2017/18 levy	Difference
Residential	10.60 cents per \$100 insured (insured amounts capped at \$100,000 for residential buildings and \$20,000 for contents) Maximum levy payable per house is \$106 and \$21.20 for personal property	An increase of 3.0 cents per \$100 insured (a maximum increase of \$30.00 per annum for residential buildings and \$6.00 per annum for contents)
Non residential	10.60 cents per \$100 insured (uncapped)	An increase of 3.0 cents per \$100 insured (e.g. an additional \$3,000 per annum for those with insurance of \$10 million)
Motor vehicles (less than 3.5 tonne)	\$8.45 (flat rate)	An increase of \$2.37 per vehicle per annum

Please provide your feedback on the proposed rates of levy:

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Please provide your feedback on the proposed FENZ activities.

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I also want to make comment on:

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Please list any documents that you have attached to support your submission:

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