Property Council New Zealand

5 February 2020

Fire Funding Review
Department of Internal Affairs
PO Box 805
Wellington 6140
Email: firefundingreview@dia.govt.nz

Fire and Emergency New Zealand Funding Review

1. Recommendations

1.1. Property Council New Zealand welcomes the opportunity to provide feedback on the Fire and Emergency New Zealand ("FENZ") Funding Review Consultation Document.

1.2. As stated in our previous submissions, Property Council supports a strong fire service and the need for it to be properly funded through a fit-for-purpose funding scheme.

1.3. Property Council opposes the current FENZ insurance-based levy model as it is inequitable, inefficient and unsustainable long-term. We are concerned that continuing to use this model will lead to further cross-subsidisation between different user groups, which is contradictory to the principles set out in the Fire and Emergency New Zealand Act 2017 ("the Act").

1.4. We call on Government to consider alternative options, including non-insurance-based funding models that are common overseas and could be implemented in New Zealand. Property Council recommends a mixed funding model which incorporates the following funding schemes:

- **risk-based scheme** - charges are calculated based on the expected risk and level of use of the services; and
- **beneficiary pays scheme** - costs incurred in providing these services match with the charges to the beneficiaries of these service. Part of these costs would be covered by central government when services are deemed to benefit the public good.

1.5. The proposed schemes are fit-for-purpose and would enable a better funding process that would enable provision of the fire and emergency services that New Zealanders need and expect. They are also more compatible with the funding principles in the Act and follow more closely the Treasury's guidelines for setting charges in the public sector.[1] Successfully used by government entities in New Zealand and other countries, these funding mechanisms are proved to be practical, implementable and workable.

1.6. Property Council suggests that the following factors could also be built into the model:

[1] https://treasury.govt.nz/publications/guide/guidelines-setting-charges-public-sector-2017-html

NATIONAL OFFICE
Foyer Level
51 Shortland Street
PO Box 1033
Auckland 1140
P +64 9 373 3086
F +64 9 379 0781
E enquiries@propertynz.co.nz
propertynz.co.nz

- adjustments for risk-mitigation mechanisms (e.g. offering rebates where sprinkler systems and fire alarms are installed);
- historical demand for fire services (e.g. by property type); and
- charging individual users for specific services that are private in nature (e.g. false call-outs).

1.7. Implementing these adjustments would make the funding regime more equitable, encourage better use of FENZ's resources, and incentivise people to take precautionary measures to better prevent fires and save lives.

1.8. Property Council does not support exemptions from levies as they are associated with significant cross-subsidisation and result in increased complexity. Although we oppose the levy exemptions, we agree that discounted contributions could be made for some property types that have public attributes. However, our position is to consider discounted contributions rather than absolute exemptions as discounted contributions are common trend overseas.

1.9. Property Council's position is that Government should avoid using caps if possible as they result in equity issues. For example, FENZ currently applies caps on fire insurance levies for residential housing, while no such caps apply in respect to commercial property. The concept of caps is also inconsistent with the risk-based model which we are advocating for. If, however, Government decides to keep using caps, our recommendation is to apply caps in respect to all types of property. This is because all users of FENZ services should contribute to funding on an equitable basis taking into account a broad range of services FENZ provides.

1.10. Property Council argues that it is feasible and practical for local authorities to be responsible for levy collection as they already have necessary access to data and charging mechanisms. While this appears to be the norm internationally, we are not wedded to it and would be open other means of collecting the levies. Further to this, we recommend considering existing collection methods which are successfully used by New Zealand institutions, such as Accident Compensation Corporation (ACC), Inland Revenue (IRD) and New Zealand Transport Agency (NZTA).

1.11. When deciding on the best collection method, Government has to consider the effectiveness of that method. This is to ensure that the costs imposed on those who are funding FENZ are minimised and the substantial amount of what is collected can be put towards FENZ services rather than administrative costs.

2. Introduction

2.1. Property Council's purpose is "Together, shaping cities where communities thrive". We believe in the creation and retention of well-designed, functional and sustainable built environments which contribute to New Zealand's overall prosperity. We support legislation that provides a framework to enhance economic growth, development, liveability and growing communities.

2.2. Property is currently New Zealand's largest industry with a direct contribution to GDP of $29.8 billion (13 per cent). The property sector is a foundation of New Zealand's economy and caters for growth by developing, building and owning all types of property.

2.3. Property Council is the leading not-for-profit advocate for New Zealand's largest industry - property. Connecting people from throughout the country and across all property disciplines is what makes our organisation unique. We connect over 10,000 property professionals, championing the interests of over 560 member companies who have a collective $50 billion investment in New Zealand property. Our membership is broad and includes companies that undertake large-scale residential and commercial development projects, including large commercial buildings, industrial parks and retail precincts where people live, work, shop and play across New Zealand.

2.4. This submission responds to the issues and questions raised in the Fire and Emergency New Zealand Funding Review: Consultation Document. Comments are provided on those issues that are relevant to Property Council and its members.

2.5. The key question the Government is seeking to answer is how to best split the cost between those who would benefit, given the different level of benefit they receive from FENZ. This submission provides an overview of why an insurance-based method is not fit-for-purpose. We suggest Government considers alternative options that best split the cost for a better provision of FENZ services. This submission also covers additional factors that could be built into the model and recommends agencies that could be responsible for collection of levies.

3. Legislative principles

3.1. The Act provides the five principles underlying the levy regime for FENZ. We applied these principles when assessing the existing insurance-based model as well as alternative options to fund FENZ services.

3.2. Additionally, we followed the Treasury's Guidelines for Setting Charges in the Public Sector.[2] The steps in the guidelines refer to defining the service and its nature, i.e. public, club, or private, the cost of the service delivery, identifying exacerbators and beneficiaries of the

[2] https://treasury.govt.nz/publications/guide/guidelines-setting-charges-public-sector-2017-html

service as well as the charges they should face. We followed these steps when examining potential funding options for FENZ.

4. Overview of the insurance-based model

4.1. Property Council has been advocating for several years to replace the insurance-based model with an alternative option to ensure a better funding process for FENZ services.

4.2. Property Council does not support the insurance-based model as it is:

- not universal, as those who do not insure do not contribute to FENZ while being able to receive FENZ services if needed;
- not equitable, as it makes little attempt to identify and charge beneficiaries based on the cost or risks they impose on FENZ; and
- not predictable, as the levy is still unknown for the post transition phase.

4.3. The current FENZ funding regime has a number of disadvantages when compared to other funding models. The main issue is that the insurance-based model does not provide price signals to users that reflect the costs they impose on them. For example, an industrial property faces a very different response than a commercial block of leased apartments. The risks are different and the required response would be different in the event of a call-out.

4.4. Large multi-national corporations and government agencies have an option to self-insure or alter insurance coverage to minimise contributions. For example, institutions, such as the Ministry of Education are beneficiaries of FENZ service and are under-contributing to the funding of FENZ as they have the option of attaining loss limit insurance positions due to being able to group insure. Therefore, the loss of revenue from these public institutions will likely be transferred to other contributors. This leads to significant cross-subsidisation. Property Council opposes cross-subsidisation and argues that all users of the FENZ services should contribute to FENZ on an equitable basis.

4.5. There is no risk or experience rating built into the levy structure of the current insurance-based model leading again to significant cross-subsidisations between different user groups. For example, costs for providing rural fire and emergency services are significantly higher than urban fire and emergency service costs. However, this is not reflected in the current funding structure resulting in levy rates for urban contributors covering the rural costs.[3]

4.6. The insurance-based levy means those who do not insure do not contribute to FENZ, despite receiving the benefits of FENZ services. This means that high risk users and sectors like forestry are not charged for the service as they predominantly do not insure. These are also sectors that are likely to require the services of FENZ and are unlikely to be paying their fair share under the current proposal.

[3] Contrary to the Treasury's principles for cost-recovery by government entities

4.7. FENZ responds to numerous types of incidents. However, it is unclear whether the current system is funded in proportion to incident types. For example, property owners provide over 80 per cent of the FENZ funding, while accounting for only 12 per cent of the incidents, such as structure fires and vegetation fires. Property Council's position is that funding should be sought in proportion to that demand.

4.8. It is also important to take on board the learnings from other countries. The current international trend is for a move away from insurance-based levies to fund fire and emergency services. The examples we considered in this submission prove that moving away from the insurance-based mechanism is practical, feasible and leads to better outcomes.

5. Alternative options for FENZ funding

5.1. We note that the Government has previously taken a narrow approach to identifying FENZ funding model as it has only considered an insurance-based scheme and not other funding tools.

5.2. Property Council recommends investigating alternative funding options, including non-insurance-based models that are common overseas and could be implemented in New Zealand. Taking a broader approach to the assessment would help find a fit-for-purpose funding model to ensure a better delivery of the FENZ services.

Risk-based model

5.3. The current FENZ insurance-based funding model does not include any experience or risk rating built into its levy structure. An industrial property, for example, would face a very different response than a commercial block of leased apartments. However, it appears that FENZ is being funded as it is a broad club good which led to significant cross-subsidisations between different user groups.[4]

5.4. Property Council recognises the need for all users of the FENZ services (i.e. property owners and motor vehicle owners) to pay their fair share towards FENZ, relative to their use of, and reliance on those services. Therefore, we recommend a risk-based funding model. This would more closely align the charges to users with the costs they impose on the system. As part of our assessment, we reviewed a number of local and international case studies, which demonstrated that risk-adjusted contributions are implementable and sustainable.[5]

[4] Club goods and services should be funded by the group of users belonging to the particular 'club' or 'group' as defined in the Treasure New Zealand's Guidelines for Setting Charges in the Public Sector.
[5] In 2017 Property Council commissioned A best-Practice Review of Funding Regime for Fire & Emergency New Zealand https://www.tdb.co.nz/wp-content/uploads/2018/01/FENZ-Funding-Best-Practice-Review-Oct-17.pdf.

5.5. The risk-based model is not unique in New Zealand. For example, ACC has strong risk-adjustment mechanisms built into its funding approach. Under this scheme, those who are more likely to require the cover pay more, and those who will likely require a higher level of support in the event of accident contribute more. For example, motor-vehicle owners pay more if it is deemed that in the event of a crash, they are likely to be harmed more and therefore inflict a higher burden on the system.

5.6. ACC has a funding model where the level of use is not certain, similar to FENZ. However, the level of expected use can be linked to the level of risk associated with an activity. For example, for its work account, ACC differentiates its fees by industry type.[6] 539 industry types are amalgamated into 142 levy risk groups. Therefore, firms contribute to ACC's expected costs based on likelihood of injury relative to other job types, the firm's specific history of workplace safety relative to other firms doing the same job, and the expected level of burden place on the system in the event of injury.

5.7. Globally a number of countries have moved away from an insurance-based funding model to a risk-based scheme. For example, many Australian states have implemented sustainable funding regimes for fire and emergency services that have direct allowances for risk, based on the likelihood of service and the service provided in the event of emergency. Gainesville in Florida also includes a hazard classification that involves grouping 97 sub-categories of property types into five risk bands based on the use of the property.

5.8. FENZ could potentially move to a risk-based model, under which charges would be based on the probability of use and level of use in the event of incident. Similar to ACC's model, the risk-based charges could then be overlaid with adjustments for individual use over a given year. This would help increase the equity of FENZ funding system.

5.9. The fire service providers in a number of countries we assessed aim to charge for fire services based on risk. In order to set the charges at an appropriate level, they classified properties in different groups, based on the risk they impose on the system. While other countries have several categories (e.g. 16 in Queensland, seven in South Australia, five in Florida), FENZ appears to be an outlier with only two. Property Council argues that there is a potential for FENZ to divide properties beyond just residential and non-residential, while keeping a number of categories manageable.

5.10. Property Council has drawn up a potential model which could be further investigated (Table 1 below). Our position is that it is desirable to have as broad as a levy base as practicable. Therefore, it may also be worth considering the inclusion of other additional categories that do not necessarily fit into industrial, commercial, rural or public buildings. This includes

[6] ACC is funded through five account: motor-vehicle account, work account, earners' account, non-earners' account, treatment-injury account. First three accounts are funded by levies.

structural property, such as schools, hospitals, civic buildings, churches and non-structural assets, such as stock, house contents.

Table 1. Potential categories for the proposed risk-based model

Beneficiary Group	Risk Group	Levy base
Residential	Residential	Lump sum per dwelling unit
Industrial, commercial, rural and public buildings	High risk	Rate per sqm of building
Industrial, commercial, rural and public buildings	Medium risk	Rate per sqm of building
Industrial, commercial, rural and public buildings	Low risk	Rate per sqm of building
Rural vegetation	High risk	Rate per hectare
Rural vegetation	Medium risk	Rate per hectare
Rural vegetation	Low risk	Rate per hectare
Motor vehicle	Motor vehicle requiring class 1 or 6 licence (could be based on simplified NZTA vehicle type groupings)	Rate per motor vehicle registration
Motor vehicle	Motor vehicles other than above	Rate per motor vehicle registration
Public good (Search and Rescue, Medical; Natural disasters)	Public good	Lump sum from central Government

5.11. Overall, Property Council's recommendation is to move away from a property value model as it is inequitable, and adopt a mixed model.[7] For example, under the current insurance-based model, an owner of a $2m capital value property with $500k improvements would pay twice the levy as an owner with a $1m property with $500k improvements. Further to this, property value is not the main determinant of the cost of putting out a fire.

Beneficiary pays model

5.12. Under the current and proposed FENZ funding regime, the club of beneficiaries and cost exacerbators have not been properly defined which leads to confusion. In particular, it is unclear how the split of funding burden has been decided for the four contributing groups (residential, non-residential, motor vehicle owners and central government). It is also unclear where services, such as natural disasters, medical responses or urban search and rescue fit.

5.13. Property Council advocates for a funding model where all users of FENZ services would contribute to funding on an equitable basis. We suggest that identifying and costing the different services and matching the charges to the beneficiaries of the service would help

[7] Note: a levy on value of land would be inequitable as between locations around New Zealand, within cities, between property types or between rural and urban owners.

improve the equitability of the funding regime.[8] Therefore, we recommend exploring a beneficiary pays model as an alternative to the current insurance-based one.

5.14. The Civil Aviation Authority (CAA) is the best practice example of the beneficiary pays model given the nature of the CAA's business. CAA provides a mix of public, club and private services and allocates the costs of its different services accordingly.

5.15. The CAA is funded on a principle that the beneficiary of the CAA's service pays the cost of the burden they impose on the system. The CAA details the cost of providing its service and revenue collection by service line. Funding for the CAA is shared between central government, consumers of the aviation system in New Zealand, and commercial and private practitioners of aviation in New Zealand.

5.16. Similar to CAA, FENZ could increase the equity of its funding by more actively analysing the appropriate beneficiaries of its services and classifying service delivery as either a private good, club good or public good. It could then estimate the cost of providing each major service category and set its charges accordingly. For example, where there is a medical response FENZ would receive funding from the Ministry of Health and ACC for providing this service in a similar vain to St John's Ambulance.

5.17. The Queensland's Emergency Management Levy (EML) is also a good example of a beneficiary pays system, where levies are set on a basis of the response rate and level of response the contributor would receive in the event of an incident. It includes 16 property-use groups aggregated from 160 property types.

5.18. The EML model implements cost-recovery principles consistent with minimising cross-subsidisation between contributors. For example, a small office, shop located in a well-staffed and well-equipped area would contribute $203 per year, while large oil or fuel depots would contribute almost $400,000 per year.[9] This is sensible because if a fire station is well-staffed and well-equipped then the surrounding properties are the direct beneficiaries of that readiness and should take on a larger funding burden.

6. Other factors for Government to consider

Adjustments for risk-mitigation

6.1. We suggest building adjustments for risk-mitigation mechanisms (e.g. sprinkler systems, monitoring alarms) into the funding model. These incentives help reduce the risk of fire, increase general public safety and decrease the potential costs to the fire service. For

[8] Note: the allocation of costs to beneficiary groups should bear some relationship to the scale of turnout that FENZ would allocate in the event of a response being called upon.
[9] Note: small and large property type is in regard to the size (m^2), not value.

example, the average house fire causes approximately $42,000 worth of damage in fire and smoke damage, while the average cost is only $2,000 for properties with sprinkler systems installed.[10]

6.2. Various risk mitigation incentives have been successfully built into the funding models in the USA. For example, Gainsville, Florida uses a sprinkler discount for properties with approved automatic sprinklers.

6.3. A discount on the levy provides property owners with a financial incentive to install sprinklers, self-manage fire risk and offsets the cost of installation of the sprinkler or alarm.[11] This discount results in a more equitable fire services charge, as properties which have sprinkler systems will typically cost the fire services less to protect.

Charging specific users for the cost of specific services

6.4. FENZ provides a wide range of services, including non-fire emergencies, motor vehicle extrications, assistance with International Urban Search and Rescue and many others. Some services, such as false alarm call-outs, cleaning up chemical spills, are clearly private in nature. Responses to false alarms call-outs account for one third of the fire services provided.[12] Despite that, there is no attempt under the current FENZ funding regime, to charge individual users for these services.

6.5. User fees, where beneficiaries are charged the part or whole cost of a specific service, are commonly used by many fire departments in the USA. For example, some areas like Casper, Wyoming have specific user charges for certain fire service call-outs. Fire Rescue in New South Wales also charges users for attending non-fire-related hazardous material emergency for more than one hour or attending repeat avoidable false-alarm calls.

6.6. Consistent with the examples above, FENZ could set up a contribution pool by response type and adjust the required contributions over time by offering a no-false-callout bonus and recovering the lost funding from frequent users of the false alarms. This would more properly reflect direct use while not deterring well-intentioned calls. Our position, however, is that these charges should be reasonable to ensure market signals are in place to minimise call-outs.[13]

---

[10] Source: A best-Practice Review of Funding Regime for Fire & Emergency New Zealand https://www.tdb.co.nz/wp-content/uploads/2018/01/FENZ-Funding-Best-Practice-Review-Oct-17.pdf.

[11] The New Zealand Fire Service estimate that the average cost of installing sprinklers in a new house is one to two percent of a building's price.

[12] The New Zealand Fire Service Emergency Incident Statistics 2012-2013.

[13] Prior to urban and rural fire services joining forces to form Fire and Emergency NZ in July, businesses that had more than three false alarm callouts in 12 months were fined $1000 plus GST – (retrieved from https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11954935).

Historical demand for fire services

6.7. We also suggest considering historical demand for fire services to determine the fire levy. Under the current insurance-based model, for example, property owners provide 85.7 per cent of the funding, while accounting for only 12 per cent of the incidents, such as structure fires and vegetation fires. Considering historical demand would help ensure that beneficiaries of the fire service pay a proportionate and fair amount for the services they receive.

6.8. Historical demand factor has been successfully built into funding schemes in the US:

- Gainsville, Florida considered historical demand for fire services based upon annual incident reports for each hazard class.
- Lake City, Florida also charges the expected beneficiaries based on recent historical demand by property type. These categories include: single-family residential, multi-family residential, hotels, commercial property, industrial property/warehousing and vacant land.

Exemptions from levies

6.9. Property Council does not support levy exemptions as they are associated with the inequity and increase the complexity of the funding system. This usually means that the cost would have to be covered by other contributors.

6.10. Although we oppose the levy exemptions, we agree that discounted contributions could be made for some property types that have public attributes (e.g. churches, parks). However, we suggest considering some discounted contributions rather than absolute exemptions. This is consistent with what we discovered through our assessment.

Caps on levies

6.11. Property Council's position is that Government should avoid using caps if possible as they result in equity issues. For example, FENZ currently applies caps on fire insurance levies for residential housing, while no such caps apply in respect to commercial property. We have not found any evidence to support this decision. We also believe that a concept of caps is inconsistent with the risk-based model which we are advocating for. It is a feature of the insurance-based model which we recommend moving away from.

6.12. If, however, Government decides to continue using caps, our recommendation is to apply caps in respect to all types of property. This is because all users of FENZ services should contribute to funding on an equitable basis taking into account a broad range services FENZ provides.

7. Collection mechanisms for Levy

7.1. Property Council agrees that it would feasible and practical if local authorities would be responsible for the cost-recovery process. This will simplify many aspects of the funding and collections system. For example, in respect to properties:

- local government has the necessary data, such as property use, property location and property size for each property under its jurisdiction; and
- there is the charging infrastructure generally already set up.

7.2. While it appears to be the world norm for local authorities to collect levies, Property Council is not wedded to it and would be open to considering other options. We also recognise that there are existing collection methods that could be investigated. This includes mechanisms that ACC, IRD and NZTA already have in place. Whatever collection method Government decides to choose, the importance of these mechanisms being efficient should not be underestimated so the maximum amount of what is collected can be put towards FENZ services rather than administrative costs.

8. Conclusion

8.1. Insurance-based model is not suitable for FENZ funding as it is inequitable, inefficient and unsustainable in the long run. There is a need to implement an alternative funding model which would result in better outcomes for everyone.

8.2. Property Council recommends moving towards a non-insurance-based funding model which would charge levies on the basis of the expected risk and level of use of the services. A new funding regime should also include a clear definition of the beneficiaries and cost exacerbators to ensure fair contribution to delivery of the FENZ's services.

8.3. Other improvements, such as adjustments for risk-mitigations incentives, historical demand for the service and charging individuals for specific services could also be built into a new funding model. The case studies examined in this submission demonstrate that implementation of these improvements is feasible and practical and would result in better outcomes for the service provision.

8.4. Property Council would like to thank the Department of Internal Affairs for the opportunity to provide feedback. Any further queries do not hesitate to contact Natalia Tropotova, Senior Advocacy Advisor, via email: natalia@propertynz.co.nz or cell: 021863015.

Yours sincerely,

Leonie Freeman

Chief Executive
Property Council New Zealand