Agenda for an extraordinary meeting of the Waikato District Council to be held in the Council Chambers, District Office, 15 Galileo Street, Ngaruawahia on **WEDNESDAY, 29 JANUARY 2020** commencing at **9.30am**.

Information and recommendations are included in the reports to assist in the decision making process and may not constitute Council's decision or policy until considered.

GJ Ion
CHIEF EXECUTIVE

Waikato
DISTRICT COUNCIL
Te Kaunihera aa Takiwaa o Waikato

To	Waikato District Council
From	Jim Ebenhoh Acting General Manager Community Growth
Date	29 January 2020
Prepared by	Nick Johnston Funding and Partnership Manager
Chief Executive Approved	Y
Reference #	GOV1301 / 2461825
Report Title	Provincial Growth Fund application: Raglan Wharf

1. EXECUTIVE SUMMARY

Council staff met with officials from the Ministry of Business, Innovation and Employment (MBIE) in December 2019 to discuss funding priorities for the Provincial Growth Fund (PGF) in 2020. A suite of works at Raglan Wharf was identified as a strong fit with PGF objectives and criteria, and it would meet the co-funding requirement as there are planned remedial and improvement works currently funded in Council's 2018-28 Long Term Plan.

Staff met with local hapuu and Raglan Wharf stakeholders to discuss this potential funding opportunity, and have prepared a proposal based on the feedback from user groups. The proposal consists of structural futureproofing, safety improvements, extra berth space utilising floating pontoons, a walkway extension, and community-led strategic planning for future Whaingaroa Harbour infrastructure.

An application to the PGF is currently being prepared and will be ready to be submitted by 31 January 2020 for consideration, subject to Council approval. This application will request $2.5 million towards the suite of works detailed in this report.

If Council is successful in its PGF application, it is recommended that $630,000 is brought forward from the Raglan Harbour Reserve and Raglan Harbour fund for replacement of existing assets, the total available for the remainder of the current LTP period, as a contribution towards the suite of works.

2. RECOMMENDATION

THAT the report from the Acting General Manager Community Growth be received;

AND THAT the Council endorses an application to the Provincial Growth Fund requesting $2.5 million towards Raglan Wharf redevelopment work;

AND FURTHER THAT, provided the Provincial Growth Fund application is successful, Council approves that $630,000 be brought forward from the Raglan Harbour Reserve Fund to contribute to the redevelopment work.

3. BACKGROUND

3.1 Provincial Growth Fund

As part of the Labour – New Zealand First Coalition Agreement in October 2017, both parties agreed to the policy of a regional development fund, named the Provincial Growth Fund (PGF). The Government allocated $3 billion to invest in regional economic development over the three-year parliamentary term. The purpose of the fund is to accelerate regional development, increase regional productivity, and to contribute to more, better-paying jobs.

The purpose is supported by the following objectives:

- Creating jobs, leading to sustainable economic growth
- Increasing social inclusion and participation
- Enabling Maaori to realise aspirations in all aspects of the economy
- Encouraging environmental sustainability and helping New Zealand meet climate change commitments alongside productive use to land, water and other resources
- Improving resilience, particularly of critical infrastructure and by diversifying our economy

The PGF has three investment tiers:

- Regional – support of economic development projects, feasibility studies and capability building identified within regions
- Sectors – initiatives targeted at priority and/or high value sector opportunities
- Infrastructure – regional infrastructure projects that enable regions to be well connected from an economic and social perspective, including rail, road and communications.

Applications can be made to any of these tiers, or two or more tiers where they are interconnected. However, projects delivering housing, three-waters and large-scale irrigation, and social infrastructure such as schools and hospitals are not eligible for PGF funding.

Investment has been concentrated in the 'surge regions' of Tai Tokerau / Northland, Bay of Plenty, Tairawhiti / East Coast, Hawke's Bay, Manawatu-Whanganui, and West Coast.

Cabinet has oversight of the PGF, and makes decisions about investments of $20 million or more. Ministers with regional economic development portfolios have the authority to make decisions about investments between $1 million and $20 million. The group is made up of four ministers: Minister of Finance Grant Robertson, Minister of Regional Economic Development Shane Jones, Minister of Economic Development David Parker, and Minister of Transport Phil Twyford.

Senior regional officials have authority to make decisions about investments below $1 million. An independent advisory panel provides advice to the ministers about investment proposals, and supports MBIE to build a balanced and coherent portfolio of investments.

3.2 PGF Funding in Waikato Region

Several PGF projects have been approved and announced in the Waikato Region, including:

- Waikato Regional Theatre - $12,000,000
- Hauraki Gulf Historic Maritime Park – development of marine park - $731,771
- Te Aroha Tourism Precinct – business case and development - $810,000
- Waharoa Industrial Hub – business case - $800,000
- Sugarloaf Wharf, Coromandel – business case to expand wharf - $558,000
- Te Waananga Glenview – Maaori Innovation & Entrepreneurship Centre - $500,000

Waikato District Council has not applied to the PGF to date, but there have been other applications from other parties, including Waikato-Tainui, lodged for projects in the Waikato District. Several projects have been tested for eligibility with local MBIE staff. As the PGF has gravitated away from funding feasibility studies and business cases in 2019, focusing on 'spade-ready' projects that already have committed co-funding contributions, there have not been any other suitable WDC projects to take through the application process that would have a good chance of receiving PGF funding.

3.3 Meeting with MBIE officials

Council staff met with officials from MBIE in December 2019 to discuss funding priorities for the PGF in 2020. Investment discussions focused on the infrastructure tier of the PGF criteria, in particular wharf and jetty projects that align with the purpose and objectives of the fund. Council decision-making and co-funding expectations were also discussed. As it is the final year of the PGF under the current parliamentary term, applications need to be submitted with urgency to allow adequate time for consideration and assessment.

4. DISCUSSION

4.1 Assessment of Council projects

Following the December 2019 meeting with MBIE officials, Council staff assessed potential projects and works currently approved in the 2018-28 Long Term Plan that have a strong alignment to the PGF priorities and objectives. After further discussions with MBIE officials, the Raglan Wharf was identified as a possibility for investment. As the Raglan Wharf has planned remedial and improvement work currently funded in the LTP, it would meet the PGF co-funding criteria. Potential PGF investment presents an opportunity to look at a suite of improvements to the wharf and the surrounding area that meets the priorities of the PGF and the aspirations of the local community.

4.2 Stakeholder Engagement

Council staff met with Councillor Thomson, Raglan Community Board representatives, local hapuu representatives from Ngaati Maahanga / Hourua, Tainui o Tainui, and the Raglan Wharf stakeholder group in January 2020. The Raglan Wharf stakeholder group is a forum for discussions between many of the wharf stakeholders, including charter fishing businesses, commercial fishing businesses, retail and hospitality business owners, recreational fishing representatives, and Raglan Coastguard representatives, alongside members of the Raglan Community Board representing the wider public. As members of the Raglan Community Board have been actively facilitating discussions between wharf stakeholders over the past two years, the group was quick to find consensus on the potential works on the wharf site that would work for all user groups. These proposed works are recommended to be the basis for an application to the PGF.

4.3 Proposal

The following works and initiatives are proposed for an application to the PGF:

- Extra berths utilising floating pontoons near the current dolphin pier (design to be developed in detail with wharf stakeholder group to accommodate all user groups) to improve access and increase capacity for additional commercial, recreational and charter boats utilising the wharf.
- Structural improvements (piles and other remedial work under the wharf) to futureproof the wharf, protecting access for the businesses, user groups, and the wider community that use the wharf.
- Safety and access improvements, including a walkway connecting the current Wallis St walkway to the west side of the wharf, a small walkway extension along east side of wharf near boat ramp to allow more outdoor space to be used by retail and hospitality businesses as well as improving accessibility, replacement of older timber balustrades where necessary, and installation of bollards to replace current gate on the west access way.
- Community-led strategic planning for Whaingaroa Harbour infrastructure – work to explore opportunities for future connections with other jetties in the harbour, improving connectivity between the town and surrounding communities. This work would be led by the Raglan Community Board and Raglan Naturally, in conjunction with local hapuu and the Raglan Wharf stakeholder group, and with extensive consultation with the wider community in the Raglan Ward and Onewhero - Te Akau Ward.

As part of the Council's co-funding requirement, work will be undertaken to explore parking and access improvements along Wallis Street and Aro Aro Park, in consultation with the members of the Raglan Wharf stakeholder group, local hapuu and the Raglan Community Board. Even though these works are currently unbudgeted, there is an opportunity for current wharf funding to be reallocated for this purpose, if PGF funding was granted.

Indicative costings of these works are being prepared for the PGF application. It is proposed that the application request $2.5 million towards the Raglan Wharf.

5. CONSIDERATION

5.1 Financial

The PGF requires applicants to outline all other funding sources for project delivery. Raglan Wharf is funded through a Council reserve and replacement fund, which does not have a general rate impact. Council currently has $78,424 uncommitted in the Raglan Harbour Reserve for 2020/21 and $97,671 uncommitted in the Raglan Harbour fund for replacement of existing assets. $454,092 is currently budgeted in the remainder of the current LTP period from 2021/22 to 2027/28 for contributions to these reserves.

If Council is successful in its PGF application, it is recommended that $630,000, the total available in the above Reserves in the remainder of the current LTP period, is brought forward as a contribution towards the suite of works. This would mean the Raglan Reserve Fund would run a deficit position until 2024/2025 with rental income recouping the costs over the remaining term of the current LTP. This reserve is forecast to generate a positive balance of $10,000 from 2025/26 onwards. There would be internal interest charges of $140,000 (budget model estimate) on deficit reserve balances until the costs are recouped, meaning there would be $490,000 available towards the suite of works after the interest costs are subtracted.

A council contribution of $630,000 (including the interest charges for bringing funding forward) would be approximately 20.1% of the total project cost if the Council received a $2.5 million contribution through the PGF.

5.2 Strategies, Plans and Policy Alignment

The application will focus on the infrastructure tier of the PGF, focusing on the following objectives:

- Improving resilience, particularly of critical infrastructure and by diversifying our economy
- Enabling Maaori to realise aspirations in all aspects of the economy (a focus of the community-led Whaingaroa Harbour infrastructure plan)
- Increasing social inclusion and participation (by undertaking a social procurement approach wherever possible and partnering with the Raglan community through community-led planning and implementation)

The application will demonstrate links with Council's vision for liveable, thriving and connected communities, and with the following proposed initiatives identified in the Raglan Local Area Blueprint:

- Partner with Raglan Naturally in respect to planning processes
- Consider how to support the community in creating additional and sustaining existing local jobs in tourism.

The Raglan Naturally Community Plan has been an important document referred to in the preparation of the application. The proposed works and initiatives are intended to respond to the following focus areas as outlined in Raglan Naturally:

- Destination and Visitor Management:
    - Protect local interests first
    - Encourage shoulder season activities that help support businesses through the winter months
    - Create a more connected experience where visitors and locals alike can easily walk or ride between community destinations.
- Infrastructure:
    - Impact on the natural environment and ecology must be the prime consideration in all infrastructure decisions
    - Infrastructure must continue to be upgraded to reduce the impact on the natural environment and ecology
    - We aspire to a standard of excellence for all of Raglan's public assets and spaces, we work closely with Waikato District Council and take an active part in the care of it, through maintenance and beautification
- Local Government and Planning:
    - More localised consultation / planning / decision making and implementation
- Transport
    - Encourage cycling and walking by providing safe, convenient routes
    - Cohesive planning of sustainable transport, including walking, cycling, pedestrianisation, and ways to reduce parking demand in crowded areas.

6. OPTIONS

6.1 Apply for PGF funding and bring Reserve funding forward

The recommendations for this option are detailed in section 5.1.

6.2 Apply for PGF funding and leave Reserve funding unchanged

If Council chooses not to bring forward funding in the Raglan Harbour Reserve Fund, this will limit Council's contribution towards initial physical works, which could potentially decrease the likelihood of success for the PGF application.

6.3 Do not apply for PGF funding and leave Reserve funding unchanged

If Council chooses not to apply to the PGF, this will have no impact on the current Raglan Harbour Reserve budgets and current maintenance programme. However, Council would miss out on the opportunity to attract central government investment in one of our communities.

7. CONCLUSION

The Raglan Wharf project has been an exciting opportunity for Council to work alongside members of the Raglan Community Board, local hapuu representatives and the Raglan Wharf stakeholder group to develop the proposal for a suite of works that will futureproof the wharf structure, improve safety and accessibility, and to increase the number of berth spaces for commercial, charter and recreational boats accessing the wharf. The improvements will provide benefits to all current user groups and the wider public, meeting many of the priorities of PGF investment.

The proposal is an opportunity for Council to deliver on two priorities of the Raglan Local Area Blueprint, which are to partner with Raglan Naturally in respect to planning processes, and to support the community in creating additional and sustaining existing local jobs in tourism. If the application is successful, there is strong interest from all stakeholders to continue working in partnership in the design stage and beyond.

ATTACHMENT

- Raglan Wharf – Aerial photo

Raglan Wharf – proposal (indicative areas only)

Legend

Safety improvements and structural work (under wharf)

Proposed extra berths with pontoons

Walkway extension, safety and access improvements

Open Meeting

To	Waikato District Council
From	GJ Ion Chief Executive
Date	21 January 2020
Prepared by	A Diaz - Chief Financial Officer
Chief Executive Approved	Y
Reference #	GOV1318 / 2464247
Report Title	Submission on the Fire and Emergency New Zealand Funding Review

1. Executive Summary

Fire and Emergency New Zealand, via the Department of Internal Affairs, is undertaking a two staged consultation process on potential changes to the current insurance-based levy funding mechanism (property and vehicles). The Fire and Emergency New Zealand Act 2017 envisaged changes to the levy scheme and consultation is expected to be completed in time for implementation of a new charging regime in 2024.

Workshops held with Local Government in recent months have outlined that there are only two options being considered in phase one of the consultation; continuation of insurance-based levies or new local government administered levies. Internal Affairs briefing papers, released as supporting documentation, outline discussions held with the Property Council regarding impacts of the adjusted levy scheme on the fair incidence of costs, which subsequently led to the development of options that would mitigate levy increases for large property owners. While fairness in charging is important, the resulting review is silent on strategic direction around service provision and is pitched as a "tool-based" conversation rather than focusing on management of the issues that FENZ face today and will face in the future. The draft submission seeks to broaden the scope of the review to include items stated as out of scope.

The consultation document and key supporting documents are attached to this report with further information available online at https://www.dia.govt.nz/firefundingreview

Council's proposed submission is attached to this report for review and amendment/approval.

2. Recommendation

THAT the report from the Chief Executive be received;

AND THAT the Council approves the submission on the Fire and Emergency New Zealand Funding Review, as attached to the staff report.

3. Attachments

- Waikato District Council's proposed submission
- Fire and Emergency New Zealand Funding Review consultation document
- Supporting documentation from DIA
    - Funding regimes for New Zealand's fire services then and now
    - Property data and Fire and Emergency NZ funding
    - Internal Affairs briefing notes to the Minister, Hon Tracey Martin (22 Nov 2018 – 13 Sept 2019)
- LGNZ memo on draft response
- SOLGM draft submission to the FENZ funding review

29 January 2020

Fire Funding Review
Department of Internal Affairs
PO Box 805
WELLINGTON 6140

firefundingreview@dia.govt.nz

Dear Sir/Madam,

RE: Submission from the Waikato District Council on the Fire and Emergency New Zealand Funding Review

The Waikato District Council (WDC) appreciates the opportunity to make a submission on the Fire and Emergency New Zealand (FENZ) Funding Review.

WDC agrees that the current method of collecting funds for this fundamental service needs review, however, we are disappointed that the consultation document appears to have been written as a fait accompli and that the more efficient and equitable general taxation (as shown in the supporting information) is out of scope[1]. This certainly does not correspond with a "clean-slate approach to funding". The document further states that the only funding options considered at the time of the reforms were variations on the insurance-based model, and given that this review is about identifying whether there are more suitable options as well as ensuring that FENZ can deliver the services now and into the future, the scope is far too narrow.

The review is silent on strategy for the long-term provision of FENZ services, overall funding required, options for partnering with other agencies etc. (which are all listed as out of scope) and instead is a "tool-based" conversation rather than seizing the opportunity to address the underlying issues that FENZ face today and will face in the future. We only need to look to the change in service provision which is now heavily weighted on medical emergency attendance[2] and to our neighbours across the Tasman to realise that the required changes are broader than simply determining a funding collection method.

WDC views the work that FENZ does as a critical aspect of supporting the people of New Zealand and should we be required to levy a charge; we will of course do that. However, we strongly advise that FENZ expand the scope of their review as well as seek an understanding of the broader context of the current proposal and its alignment with other central government work programmes. The Productivity Commission has just completed a review of local government financing and funding which determined that unfunded and under-funded mandates from central government, especially in addressing national issues, needs to be improved. An associated financing bill was introduced in December 2019 which could lead to new levies being placed on properties to assist in lifting housing supply (through more timely development). These levies would be on top of rates and administered by the local authority. To now propose another unfunded nation-wide mandate is at odds with the findings of the Productivity Commission review (noting that the concept of the "in-kind" contribution suggested to cover additional administration costs would, in fact, be a further cost to ratepayers).

Using localised funding mechanisms to support nation-wide services will be administratively intensive. WDC supports the SOLGM submission observations on the technical and practical issues associated with property levies.

[1] 22 November 2018 Internal Affairs Briefing, Appendix A: comparison of options for FENZ's funding model
[2] Fire and Emergency's responses graphic on page 11 of the full consultation document shows 40% of 2018/19 responses were for medical emergency attendance.

Submission

Council's observations on the three key funding principles are provided below. The attachment, which responds to the specific questions raised in the consultation document, also forms part of WDC's overall submission.

Universal and equitable

Neither insurance nor property-based levies will address the universal and equitable principles. For the costs of FENZ services to be shared among all who benefit from the potential use of the service, the mechanisms for charging would target people not the assets of people. This is particularly relevant with the move towards attendance at medical emergencies where no asset is involved. The most efficient mechanism for collection of funding would therefore be via general taxation which has been stated as out of scope. The benefits of having FENZ services in place is to keep people safe; the services are not targeted at saving homes, commercial property or vehicles but rather minimising the impact on people.

Stable

Most funding mechanisms will address the concept of stability over time. The more important principle, WDC believes, is collectability or surety of funding i.e. that everything invoiced is actually paid. For example, making insurance a mandatory pre-requisite for vehicle registration purposes could lead to more insurance-based levies being collected. With council rates, despite all of the mechanisms in place to make these charges mandatory, there is still a level of debt that is not collected and categories of property that are not charged rates that under a property-based levy proposal should be charged a FENZ levy. The levy schemes or taxation methods with the highest rates of collectability will be where the payment is collected upfront e.g. PAYE, GST, petrol tax etc.

Summary

- Waikato District Council believes the scope of the FENZ review should start with understanding the strategic direction of the service rather than starting with 'fixing' a collection tool (focuses on output rather than outcomes)

- FENZ is a critical support service for people and therefore the ideal funding mechanism would be people-based rather than tied to physical assets

- The funding review is not 'clean slate' if general taxation is out of scope at the outset

- Using localised funding mechanisms to address nation-wide services will be administratively intensive

WDC would like to thank the Department of Internal Affairs for the opportunity to make a submission. The Council will speak to this submission if required and are willing to be part of any further discussions.

Yours sincerely,

Allan Sanson

MAYOR

Response to consultation document questions

Question No.	Question	Response
1	Are there other principles the Government should consider?	Efficiency (ease of administration or setup) and effectiveness (cashflow surety/collectability)
2	Which of the principles are most important to you and why?	Universal – that the costs are shared amongst all who benefit for the potential use of FENZ services
3	Do you agree with the summary of benefits to businesses and households?	Most benefits are people related, rather than asset related. Risk reduction and/or readiness measures may have benefits to assets but other aspects (response and recovery) mainly relate to keeping people safe and limiting the impact on their lives/livelihoods.
4	Which option do you prefer and why?	The status quo will have the lowest change impact, but is not the most universal, equitable, efficient or effective mechanism. Neither option sufficiently addresses the principles outlined by the consultation document.
5	What are the likely issues or challenges with implementing these options?	The property council has raised issues with equitable charging so to maintain an insurance-based levy is likely to not be supported by this particular lobby group. The insurance sector has also indicated concerns with system set-ups of an insurance-based levy - costs/time/resources. Property-based levies would be administratively onerous and requires collaboration with 17 regional/unitary councils or 67 district/provincial/rural or city councils. Other non-rate based charges have been proposed to be administered by council through draft legislation. This levy would be on top of that and doesn't align with unfunded or under-funded mandates findings from the productivity commission report.
6	Is there another option or options the Government should consider?	Any levy based scheme or general taxation mechanism that receives payment upfront and is already capable of system setup changes at minimal level of administration/resourcing.
7	Do you agree with the summary of benefits to motorists?	Yes WDC agrees with the benefits listed but note that they mainly address benefits to people (safety/aid) not the vehicles themselves.
8	Which option do you prefer and why?	Vehicle licencing based approach would provide a pseudo mandatory insurance levy, would have upfront payment and therefore be more effective than insurance-based levies as a standalone.
9	What are the likely issues or challenges with implementing these options?	Collectability could be an issue, e.g. May lead to lower level of licensed vehicles. WDC would be concerned that using land transport revenue would reduce the overall funding envelope for current roading and transportation programmes.

Question No.	Question	Response
10	Is there another option or options the Government should consider?	Any levy based scheme or general taxation mechanism that receives payment upfront and is already capable of system setup changes at minimal level of administration/resourcing.
11	What do you like or dislike about these options?	Crown direct contribution would have lower associated administration costs and would better align to people-based benefits – $10 million seems like an incredibly low contribution given this is a critical service for all, especially in the context of other significant government investments such as anticipated infrastructure spend announcements or election referendum items. Local authorities could provide a level of property-based contribution for localised FENZ services but it is a misnomer to describe any levy collection service as “in-kind” as any increase in administration will result in higher costs and therefore higher rates. FENZ should definitely be charging for consultancy work and nuisance events (which incidentally we thought was happening – in WDC’s previous experience, false callouts had an approx. $1,000 price tag attached)
12	What are the likely issues or challenges with implementing these options?	With local authority and FENZ charging, collectability could still be an issue. The challenge with crown funding will depend on whether the fiscal envelope will adjust (i.e. higher taxes/levies) to fit or whether current commitments to other priorities will be reduced.
13	Is there another option or options the Government should consider?	Any levy based scheme or general taxation mechanism that receives payment upfront and is already capable of system setup changes at minimal level of administration/resourcing.
14	Which option do you think is the most suitable and why?	None of the options proposed will cover every key principle/desired outcome. The most suitable method would be any levy based scheme or general taxation where payment is received upfront, setups are efficient and effective and where people are recognised as the beneficiaries of the FENZ services.
15	What do you like and/or dislike about the different collection mechanism options?	As stated in previous responses. WDC also supports the content of the SOLGM submission.

Te Tari Taiwhenua
Internal Affairs

New Zealand Government

Fire and Emergency New Zealand Funding Review

Consultation document

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Message from Hon Tracey Martin

Minister of Internal Affairs

Fire and Emergency New Zealand is a relatively new organisation, being an amalgamation of the former rural and urban fire authorities and the national body for all fire and emergency services in New Zealand. Since it was established in 2017, New Zealanders have started to see the benefits of a unified fire and emergency service.

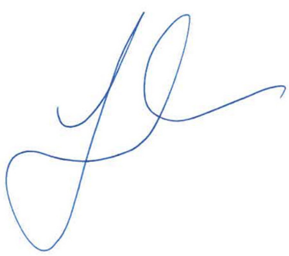
The coordination involved in the Tasman wildfire, which saw Fire and Emergency deploy firefighters and equipment from the length and breadth of the country, is a good example of the strength of the new organisation.

When I became Minister in 2017, Fire and Emergency was less than six months old and in the process of preparing to set a new levy under the provisions in the Fire and Emergency New Zealand Act 2017. It was apparent to me that there were some issues with the new levy model and that some property owners were facing substantial possibly unfair levy increases.

In initiating a review of the funding model for Fire and Emergency, while its current funding is set and level of reserves are strong we have an opportunity to take a clean-slate approach to funding this new organisation rather than simply stick with the model we've had historically.

The services that Fire and Emergency provides are essential to the ongoing safety of New Zealanders. That is why it is important for the Government to ensure that the organisation has a stable and secure source of funding both in the short and long term. At the same time, we want to ensure that the funding regime reflects costs, benefits and peoples' ability to pay.

The purpose of this review is to see if there are more suitable options for funding Fire and Emergency than the current levy on property insurance. We are taking a fresh look at the options and talking to a wide range of people and organisations to ensure we understand both the benefits and challenges in any potential funding model. We want to hear what you think about the best way to fund our fire and emergency services.



Hon Tracey Martin
Minister of Internal Affairs

Executive Summary

Fire and Emergency New Zealand provides fire and emergency services 24 hours a day, seven days a week, from 652 fire stations across New Zealand. Fire and Emergency responds to incidents through a mixed model that includes 1800 career fire fighters concentrated in urban areas, 11,800 volunteers all over New Zealand, and through partnerships with other agencies.

Fire and Emergency is mainly funded through a levy on commercial and residential property, and motor vehicle insurance. Internationally, there is a growing trend to move away from insurance-based funding models for fire and emergency services. This is likely due to the inherent limitations of insurance-based approaches.

The Government is reviewing how Fire and Emergency is funded to consider better ways to fund such an important organisation so that it can remain responsive and fit for purpose in future. The Government is interested in:

- your views on ways to fund Fire and Emergency;
- understanding the value New Zealanders receive from Fire and Emergency; and
- how to best share Fire and Emergency's costs between those who benefit.

The first phase of the review is about collecting information. This feedback will be used to develop a preferred approach for Cabinet consideration. Any changes will take time to implement. We will be consulting again in in phase two of the review on the impacts on businesses and households. We want to ensure the system is fair and affordable for everyone.

This review is only considering the funding options for Fire and Emergency. It is not considering wider changes to the Fire and Emergency Act, Fire and Emergency's structure, nor funding options for other emergency services such as ambulance services. Fire and Emergency's existing funding arrangements will remain in place during the review.

Chapter 1: Background and scope of review

We want to hear from you

The Government is reviewing the way Fire and Emergency New Zealand is funded. We want to find out whether there are more suitable options than the current approach, which is based on a levy paid on insurance contracts.

Background

The Fire and Emergency Act came into force in July 2017. It established Fire and Emergency from the amalgamation of the former New Zealand Fire Service Commission, the National Rural Fire Authority, twelve enlarged rural fire districts and 26 territorial rural fire authorities.

Fire and Emergency is almost entirely funded by a transitional levy on property insurance. The transitional levy continues much of the levy regime that funded the New Zealand Fire Service Commission under the Fire Service Act 1975, with an increased levy rate to fund the transition to a unified organisation, and to reflect Fire and Emergency's new functions. Under the Fire and Emergency New Zealand Act as it currently stands, the current regime will apply until 1 July 2024.

A levy is:
A charge imposed on a group of individuals or organisations (e.g. an industry) as a proxy for the individuals or individual organisations who directly receive or would benefit from the good, service or regulation.

An updated and modernised insurance-based levy regime is authorised under the Fire and Emergency Act and will come into effect on 1 July 2024 if no other action is taken. While the funding regime was reviewed as part of the reforms that led to this new regime, the only options considered at that time were variations on the existing insurance-based model.

Purpose of review

The purpose of the review is to identify whether more suitable options exist for funding Fire and Emergency than an insurance-based levy. The Government has commissioned the Department of Internal Affairs (DIA) to undertake the review under the direction of the Minister of Internal Affairs. The Government's objective is to ensure that Fire and Emergency can continue to deliver the fire and emergency services that New Zealanders need and expect into the future.

The review is working within the existing principles set out in the Fire and Emergency Act. These principles state that Fire and Emergency's funding should be Stable, Universal, Equitable, Predictable and Flexible. There is more information in Chapter Three on how these principles will guide our thinking on future fit for purpose funding models.

Broader review timeline

The review of Fire and Emergency's funding regime is proceeding in two phases.

- **Phase One (March 2019 – February 2020):** This phase looks at the high-level ways to fund Fire and Emergency and seeks views from the public and stakeholders.
- **Phase Two (March 2020 onwards):** The Government will select the preferred funding model for Fire and Emergency.

Phase Two will include assessing the options and analysing feedback, and further consultation on the details of any new model. There will also be further consultation on the levy rate and how it should be applied before any changes to the levy occur.

What this consultation is not about

We are seeking views on approaches to fund Fire and Emergency at this stage, not the level of funding itself. The following is outside the scope of the review:

- Fire and Emergency's expenditure;
- Fire and Emergency's operations;
- legislative settings not related to funding Fire and Emergency;
- funding arrangements for other emergency services; and
- funding Fire and Emergency predominantly through general taxation.

How to respond to this consultation

Anyone can make a submission. You do not need to respond to all our consultation questions. Feel free to limit your responses to those topics of most relevance or interest to you.

Submissions can be emailed to:
firefundingreview@dia.govt.nz

Alternatively, submissions can be posted to
Fire Funding Review
Department of Internal Affairs
PO Box 805
Wellington 6140

The review team will be conducting a series of open meetings, and meetings with targeted stakeholder groups, on this discussion document.

See our website for more information:
www.dia.govt.nz/firefundingreview

The closing date for submissions is
Wednesday 5 February 2020.

Use and release of information

The information provided in submissions will be used to inform DIA's policy development process, and will inform advice to the Minister of Internal Affairs on progressing changes to the Fire and Emergency funding model. DIA intends to upload PDF copies of submissions received to its website at www.dia.govt.nz.

DIA will consider you to have consented to uploading by making a submission, unless you clearly specify otherwise in your submission.

If your submission contains any information that is confidential, or you otherwise wish us not to publish, please:

- indicate this on the front of the submission, with any confidential information clearly marked within the text; and
- provide a separate version excluding the relevant information for publication on our website.

Submissions remain subject to request under the Official Information Act 1982. Please set out clearly in the cover letter or e-mail accompanying your submission if you have any objection to the release of any information in the submission, and in particular, which parts you consider should be withheld, together with the reasons for withholding the information. DIA will take such objections into account and will consult with submitters when responding to requests under the Official Information Act 1982.

Private information

The Privacy Act 1993 establishes certain principles with respect to the collection, use and disclosure of information about individuals by various agencies, including DIA. Any personal information you supply to DIA in the course of making a submission will only be used for the purpose of assisting in the development of policy advice in relation to the Fire and Emergency funding model review. Please clearly indicate in the cover letter or e-mail accompanying your submission if you do not wish your name, or any other personal information, to be included in any summary of submissions that DIA may publish.

Chapter 2: Why is the funding model being reviewed?

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.

Given the limitations with insurance-based models and the recent amalgamation of services to create a single agency in Fire and Emergency, there is an opportunity to consider how to fund fire and emergency services in New Zealand. This could align New Zealand with other overseas jurisdictions that have moved away from an insurance-based approach.

Benefits of insurance-based system

There are a number of benefits to our insurance-based system:

- the system is established and works well to fund Fire and Emergency;
- people understand and are used to working with the current system;
- moving to a new system would involve some costs and risks, and a degree of uncertainty;
- insurance levels are relatively stable year to year, but can change over time; and
- insurance, where available, generally reflects value.

The current insurance-based funding model has limitations

Any insurance-based levy system will have limitations:

- property owners who do not insure still benefit from Fire and Emergency’s services, ‘freeriding’ on those who do insure;
- levels of insurance are market-driven and can change over time, and do not necessarily match the benefit that Fire and Emergency's services provide;
- charging a levy on insurance increases the overall cost of insurance, which may stop some people from getting insurance;
- levy systems can be complex to administer for insurers;
- the complexity of insurance contracts can result in similar properties paying different amounts; and
- the commercial sensitivity of insurance contracts can prevent information about some of these limitations being shared with the Government. This can make it hard to know how significant these problems are based on the information available.

Many international jurisdictions have moved away from using an insurance-based model to fund fire services

Several Australian states have fire services that were initially formed and funded through an insurance-based levy like New Zealand’s fire services.

Queensland, South Australia, Western Australia, and Victoria have moved away from an insurance-based model to a property-value based model. These states collect the levy through local councils. Some of these states include variable charges in their levy calculations – these can be based on location, size, or use of the property. These models include an allowance for the value of building contents that is calculated on the value of the property.

New South Wales and Tasmania both have an insurance-based model; New South Wales has previously considered moving to a property-based model but deferred the transition due to implementation issues, and Tasmania is considering a move to a property-based model. Northern Territory funds its fire service entirely from Commonwealth funds.

South Australia and Tasmania are the only Australian states that collect a fire levy on motor vehicles – South Australia collects a rate of levy dependent on the value of the vehicle as part of the vehicle licensing fee, and Tasmania collects a flat fee as part of vehicle licensing.

Some American states have composite models that fund fire services through a combination of charges. For example, districts in Washington State and Florida fund their fire services through a property tax, a Fire Benefit Charge (a service-benefit charge on properties based on size and use rather than value), fees and permits, and some government funding.

The options in this discussion document are similar to funding models used overseas. However, fire services in overseas jurisdictions may have different functions and responsibilities.

More detailed information on funding regimes in other jurisdictions is attached at **Appendix A**.

The current transitional funding model was never intended to be long term

The legislative changes in the 2017 Fire and Emergency Act included changes to the insurance-based levy regime to update and modernise it. These proposed changes have not yet taken effect and a transitional funding model is operating until 2024. This transitional model is not intended to fund Fire and Emergency in the long term, and the updated approach in the Fire and Emergency Act only considered new ways to fund Fire and Emergency under an insurance-based levy.

The proposed new levy regime under the Fire and Emergency Act, although more equitable than the levy system that came before it, still contains the inherent limitations of an insurance-based model. In addition, initial work done on the impact of moving to this model indicated that there could be substantial increases for some property holders and businesses.

For example, those that insure older buildings currently pay a levy calculated on the indemnity value (i.e. the present day or market value) of the building, rather than the sum insured or replacement value in the insurance policy which is typically higher. Under the Fire and Emergency Act 2017, it was proposed that the levy would be calculated on the sum insured not the indemnity value. So, for some owners of older buildings (large and small) the annual levy paid may increase significantly under the proposed new approach. Policyholders with "split perils" policies[1] would be affected in a similar way by the proposed changes from charging the levy based on fire cover to sum insured. This could affect their profitability or could result in a decision to reduce their insurance cover.

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.

1. Some policyholders, generally those with large buildings or property portfolios, insure for a lower sum against fire damage, than for other risks such as earth quake or severe weather. This arrangement is known as a 'split perils' policy.

Chapter 3: What is Fire and Emergency and what does it do?

What Fire and Emergency does

Fire and Emergency New Zealand protects lives, limits injuries, and protects property, land and the environment. It also works with communities to reduce the likelihood of unwanted fires and consequences from emergencies. Fire and Emergency is connected to all communities throughout New Zealand to undertake prevention and response work. It must be ready for any emergency or incident, so it can respond quickly and effectively.

New Zealand's integrated approach to emergency management can be described by the four areas of activity, known as the '4 Rs'; Risk reduction, Readiness, Response, and Recovery.

Risk Reduction	Readiness
Response	Recovery

Risk Reduction

An increasing focus of Fire and Emergency is to prevent fire and incidents involving hazardous substances from occurring in the first place. Fire and Emergency personnel work with New Zealanders, businesses and communities on awareness, education and adopting safer practices.

The number of fires in buildings has decreased over time. This is due to a combination of more fire-resistant building materials, changes to building codes brought about by partner agencies, and fire education by Fire and Emergency and its partner agencies.

Tasman wildfires

One of New Zealand's largest wildfires in the last 50 years broke out in Pigeon Valley in the Tasman area on Tuesday, 5 February 2019. Twenty-three helicopters, two fixed-wing aircraft and more than 150 firefighters fought the blaze at its peak. Fire and Emergency brought firefighters, trucks and equipment from the length and breadth of the country.

Fire and Emergency worked closely with others including the Ministry of Civil Defence and Emergency Management, the New Zealand Defence Force, New Zealand Police, the Ministry for Primary Industries and local government with more than 50 people planning and managing the operation.

Firefighters from a range of backgrounds worked together to protect homes and stop the spread of the fire, using skills and tactics honed on overseas deployments. With accommodation in short supply, Fire and Emergency's Urban Search and Rescue teams constructed a camp providing tents, cots and washing facilities for up to 100 people per night.

Fire and Emergency needs to maintain the capacity to respond across New Zealand while attending large-scale incidents like this one. The ability of Fire and Emergency to surge its capacity to meet any situation that may arise is essential to the safety of New Zealanders.

Hazardous substance incident closes State Highway One

A large truck and trailer carrying a range of hazardous substances hit a bank and rolled onto its side at Pukerua Bay, North of Wellington, in the early hours of Friday 19 October 2018. The incident blocked State Highway One in both directions. State Highway One was closed until around 9pm causing considerable disruption to commuter traffic and commercial road users.

The nature of the incident meant the safety of firefighters, other responders and the public had to be given priority. Fire and Emergency NZ personnel from Porirua, Plimmerton, and Johnsonville and the Hazardous Materials Command Unit from Wellington attended the incident.

Working with Mainfreight, Responsible Care NZ, NZ Police, Wellington Free Ambulance, Porirua City Council, the Environment Protection Authority, a tow salvage company and crane operators, the incident was brought to a safe conclusion with no injuries reported.

Readiness

Fire and Emergency needs to be ready to respond when and where an emergency may occur. Fire and Emergency must have distributed services spread throughout the country to ensure it is ready to respond. Fire and Emergency also assesses major risks in an area and makes plans to protect people and key assets.

Being ready means being able to quickly increase its capacity to respond when large or multiple incidents occur. This ensures both an adequate response to the incident, and cover for the rest of New Zealand during the same time.

Response

Fire and Emergency responds to incidents through a mixed model that includes 1800 career fire fighters concentrated in urban areas, 11,800 volunteers all over New Zealand, and through partnerships with other agencies.

These partnerships include NZ Police, ambulance services, civil defence and other emergency services, Department of Conservation and the NZ Defence Force. Fire and Emergency also works with the private sector including rural and forestry sectors, industry brigades and other fire related businesses.

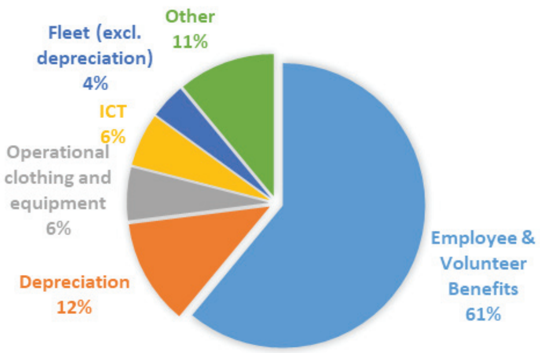
Firefighters spend increasing amounts of time on non-fire emergencies such as natural disasters, medical call outs, floods, spills of hazardous substances and motor vehicle incidents.

Recovery

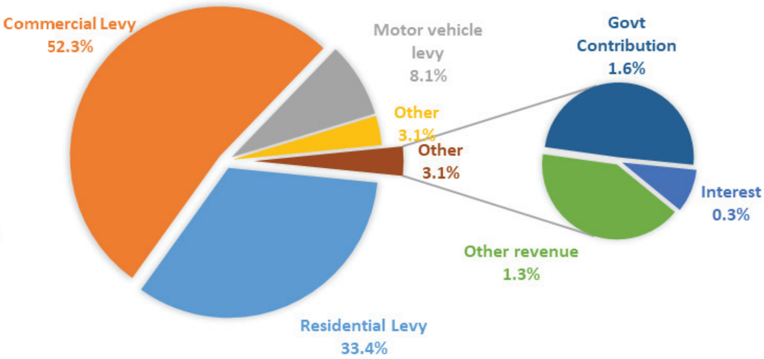
Fire and Emergency supports New Zealanders following emergencies in partnership with other agencies. This includes providing support to victims and communities immediately after an incident and helping to get them back to 'business as usual'.

A snapshot of Fire and Emergency NZ

Fire and Emergency NZ's primary expenditure (total $617m)*



Fire and Emergency NZ's primary funding sources (total $624m)*



*2020/21 year

Fire and Emergency's responses

Total incidents attended: **79,921*** including...

13,640 Medical emergencies

5,202 Structure fires

9,982 Motor vehicle incidents

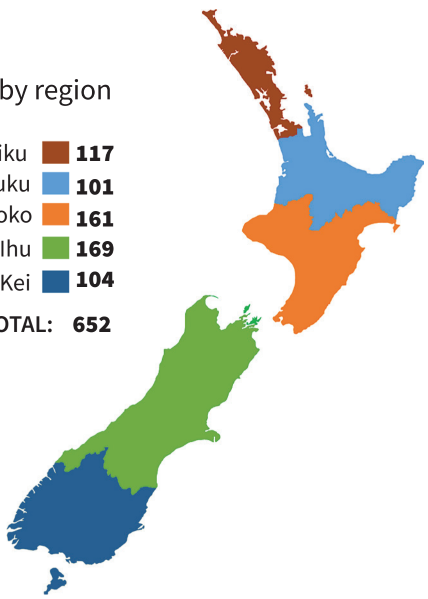
4,416 Vegetation fires

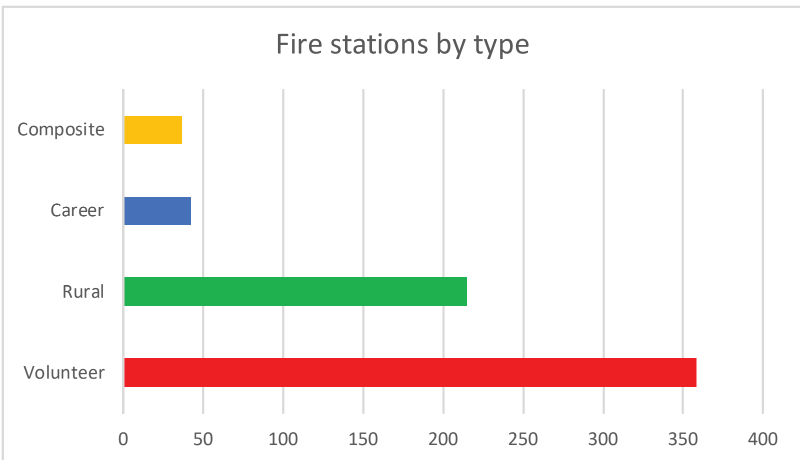
832 Hazardous substance emergencies

*2018/19 year

Fire stations by region

Te Hiku	117
Ngā Tai ki te Puku	101
Te Ūpoko	161
Te Ihu	169
Te Kei	104
TOTAL:	652





Chapter 4: Options for feedback

The key question the Government is seeking to answer is:

How to best split the cost of funding Fire and Emergency between those who would benefit (e.g. businesses and households, urban, rural and remote communities, and motorists), given the different level of benefit they receive from Fire and Emergency?

What principles will be used to assess the options?

The funding principles set out in the Fire and Emergency Act 2017[2] have been retained for the review. These are:

(a) a **stable** source of funding to support Fire and Emergency in the performance of functions and duties and exercise of powers under this Act:

(b) **universal**, so that Fire and Emergency's costs are generally shared among all who benefit from the potential to use Fire and Emergency's services:

(c) **equitable**, so that policyholders should generally pay a levy at a level commensurate with their use of, or benefit from the potential to use, Fire and Emergency's services and with the risks associated with the activities that policyholders carry out (but without strict apportionment according to use, benefit, or risk having to be observed):

(d) **predictable**, so that policyholders and levy payers are able to predict the amounts that they will need to pay and Fire and Emergency is able to predict how much levy income it will receive:

(e) **flexible**, so that the levy can adapt to—

(i) changes in the use, benefit, or risk associated with those who benefit from the potential to use Fire and Emergency's services; and
(ii) variations in Fire and Emergency's costs; and
(iii) changes to the expectations of the Crown and the strategic needs of Fire and Emergency.

2. See section 80 - http://legislation.govt.nz/act/public/2017/0017/latest/DLM6712701.html?src=qs

QUESTIONS:

1. Are there other principles the Government should consider?

2. Which of the principles is/are the most important to you, and why?

Initial options have been chosen to address the issues with an insurance-based approach, based on the principles of the Fire and Emergency Act:

- **Universal** – insurance coverage is market based and is not universal;
- **Equitable** – there is a potential mismatch between insurance cover and the benefit from Fire and Emergency's services; and
- **Stable** – insurance coverage can change over time.

Predictability and **Flexibility** can generally be built into any funding model. They will be important considerations in later phases of the review when looking at the design of the preferred approach.

No one option needs to be the sole basis for funding Fire and Emergency. It may be best to fund it based on a mixed option approach, to reflect the benefit that different sectors of New Zealand receive from Fire and Emergency's services. Caps and exemptions for certain kinds of property are an option available to limit the impact of the levy in some circumstances.

Most New Zealanders are not involved in an incident in any given year. This does not mean they do not benefit from Fire and Emergency's network coverage and readiness. Fire and Emergency's services also have a wider benefit to communities and the environment. Consistent with the **universal** principle, funding for Fire and Emergency should reflect both the indirect and direct benefits and these costs should be shared as broadly as possible.

To reflect the possibility of a mixed option approach, options have been split out for businesses and households, and motorists. We have also included some options around other potential sources of funding including Crown or local government funding.

Businesses and households

Businesses and households benefit from Fire and Emergency:

- responding to incidents with fire prevention or suppression, or incidents involving hazardous substances;
- risk reduction and fire safety work through reduced risk of incident; and
- readiness as Fire and Emergency's network and capacity allow it to respond in a timely way across New Zealand.

Options for businesses and households:

- **Insurance-based approach** – a levy charged on the value of property insured (including both building and contents). This is the status quo.
- **Property based approach** – a charge based on property data held by local authorities, such as value or size.
- **Property and use-based approach** – a charge based on property data held by local authorities, such as value or size, alongside considering how the property is used (e.g. the contents of buildings).

QUESTIONS:

3. Do you agree with the summary of benefits to businesses and households?

4. Which option do you prefer and why?

5. What are the likely issues or challenges with implementing these options?

6. Is there another option or options the Government should consider?

Option	Universal	Stable	Equitable
Insurance (status quo)	✗ About 85 to 87% of property is insured	✓ Insurance levels are relatively stable year to year, but can change over time	✓ Insurance, where available, generally reflects value (but also appetite for risk)
Property based	✓ Almost 100% for buildings, but unclear on contents	✓ Property numbers are slowly increasing	✓ (when combined with a cap on residential households)
Property and use	✓✓ Almost 100% of buildings and contents	✓ Property numbers are slowly increasing	✓✓ (when combined with a cap on residential households) Adjustments for usage can allow for greater equity

Motorists

Motorist benefits from Fire and Emergency:

- responding to incidents to rescue people trapped because of transport or other accidents and getting traffic moving again;
- protecting the safety of persons and property endangered by transport incidents including those involving hazardous substances; and
- readiness as Fire and Emergency is often first on the scene at motor vehicle incidents to aid those involved.

Options for motorists:

- **Insurance-based approach** – a levy charged on the value of vehicle insurance. This is the status quo.

- **Vehicle licencing-based approach –** a charge collected alongside the annual motor vehicle licencing fee.

- **Transfer from land transport revenue –** transferring funds from the land transport revenue which is funded by taxes on petrol, Road User Charges and motor vehicle licensing and registration fees. The land transport revenue already provides some funding for road safety but does not provide funding to Fire and Emergency.

How do the options compare?

QUESTIONS:

7. Do you agree with the summary of benefits to motorists?

8. Which option do you prefer and why?

9. What are the likely issues or challenges with implementing these options?

10. Is there another option or options the Government should consider?

Option	Universal	Stable	Equitable
Insurance (status quo)	✓ About 93% of motorists	✓ Insurance levels are relatively stable	✓ (when combined with a cap per vehicle)
Licencing	✓ Over 98% of vehicle registrations are renewed annually	✓✓ Vehicle numbers are slowly increasing	✓ (when combined with a cap per vehicle)
Land transport revenue	✓✓ Indirectly almost 100% of motorists	✗ There are competing priorities on land transport revenue	✗ Cannot cap contribution via land transport revenue. Land transport revenue is already fully committed to funding transport projects

Other potential sources of funding

Other/wider benefits from Fire and Emergency:

- responding to incidents and getting traffic moving again or communities back to "business as usual";
- responding to large-scale incidents typically provides a wider benefit than to directly affected properties;
- medical responses reduce risk for individuals and communities from harm; and
- fire permits and evacuation plans help reduce risk to individuals and the environment.

Other potential sources of funding:

- **Crown direct contribution** – the Crown currently contributes $10 million per year to support Fire and Emergency's non-fire related work. This amount is periodically reviewed.

- **Local authority contribution** – local authorities could provide some support to reflect Fire and Emergency's wider benefits for local communities. This could be an in-kind contribution (e.g. collecting the levy on Fire and Emergency's behalf or providing the data if a property based approach is preferred).

- **Fire and Emergency charging for some services** – Fire and Emergency does not charge for assisting with evacuation plans. For discrete services like this, Fire and Emergency could charge a fee to reflect the direct benefit from its services. Nuisance charges for events such as repetitive false call-outs could also be considered.

How do the options compare?

These options would potentially be secondary sources of funding to recognise the wider benefit Fire and Emergency provides.

QUESTIONS:

11. What do you like or dislike about these options?

12. What are the likely issues or challenges with implementing these options?

13. Is there another option or options the Government should consider?

Collection mechanisms for levy

Depending on which option or options make up the preferred approach, there are options for collecting Fire and Emergency funding.

Under an insurance-based approach, insurers would continue to collect the levy on Fire and Emergency's behalf. The costs of setting up and administering the current system are passed on to consumers through their insurance contracts.

If vehicle licencing is preferred for motorists, then the logical collection agent would be the New Zealand Transport Agency.

If funding moved to a property based approach, the levy could be collected by local authorities alongside rates or via a purpose built central collection agency (e.g. Fire and Emergency could be responsible for collecting its own funding) using local authority information.

There would be costs for Fire and Emergency and the collection agent associated with moving to a new funding model. These would include set up costs and ongoing administrative costs. There may also be costs or issues associated with the ownership and upkeep of property data.

QUESTIONS:

14. Which option do you think is the most suitable and why?

15. What do you like and/or dislike about the different collection mechanism options?

Consultation approach

The review team will be conducting a series of open meetings, and meetings with targeted stakeholder groups, on this discussion document.

See our website for more information:
www.dia.govt.nz/firefundingreview

Appendix A: Funding models in overseas jurisdictions

Northern Territory: Fire and emergency services are funded directly from the State consolidated fund.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Northern Territory Police, Fire and Emergency services.	No charge	No charge	No charge	N/A

South Australia: Largely funded through the Emergency Services Levy (ESL) which is collected by local government.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Sector operates under the guidance of the South Australia Fire and Emergency Services (SAFECOM) Board. Agencies are the Country Fire Service, the Metropolitan Fire Service and State Emergency Service.	Levy paid with vehicle registration. Rate of levy depends on value of the vehicle.	Fixed charge ($50 in 2016/17) charged equally on all properties with exceptions for community use ($20) and those in Regional Area 3 ($0)	Based on: • **Capital Value** - value of the property as determined by the Valuer-General. • **Area Factor** - Four areas given an area factor based on level of emergency service provision. Metro areas have highest factor of 1 and rural the lowest of 0.1. • **Land-use factor** - properties are divided into 7 land-use categories and given a land-use factor. Commercial and industrial properties have higher factors than residential or special community use • **Prescribed levy factor** - Set annually by the SA govt and charged equally over all properties.	Concessions available for pensioners and people receiving some Centrelink payments. These are made by a reduction to the prescribed levy factor and/or a concession of up to $46.

Australian Capital Territory: Fire and Emergency Services Levy (FESL) collected by local government funds around 90%, user charges fund around 8% and the remainder comes from other revenue.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
FESL funds ACT Fire and Rescue, State Emergency Services, and Ambulance Services.	No charge	Residential and rural properties are charged a fixed levy ($336 in 2018).	FESL for commercial properties is calculated on: • **Average Unimproved Value** (AUV) of the property, and a **marginal rating factor** which relates to the position of the properties AUV within 3 bands ($1-$300k, $300k-$2m, $2m+).	Pensioners eligible for a rates rebate will receive a rebate on the levy capped at $98.

Western Australia: Largely funded through the Emergency Services Levy (ESL) which is collected by local government. Around 10% of funding from government.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Department of Fire and Emergency Services is a govt department headed by a Commissioner. The levy funds the: Career Fire and Rescue Service, Volunteer Fire and Rescue Service, Local govt bush fire brigades, Volunteer State Emergency Service units, Volunteer Marine Rescue Service, Volunteer Fire and Emergency Service units.	No charge.	People who live in a location categorised as Pastoral/rural areas or mining tenants pay a fixed rate of $71 and no variable charges.	Variable charge based on: • **Location** - 6 areas with rates set according to services available to them, with properties with more services available to them paying a higher rate. • **Gross rental value (GRV)** - as calculated by the Valuer General at Landgate, this is an accepted measure for calculating what a property is worth and generally an indication of the owner's capacity to pay.	Minimum and maximum thresholds set for all property types and areas to ensure the charge does not go beyond what is reasonable and fair. Pensioner and senior rebates are also available.

Queensland: Emergency Management Levy (EML) collected by local government funds around 75%, with the remainder made from government contributions, direct user charges, and grants.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Queensland Fire and Emergency Services (QFES) is the primary provider of fire and emergency services. The Rural Fire Service is the volunteer arm of the QFES operating in areas where there is no urban fire service coverage.	No charge	Some rural districts are charged an annual 'rural fire levy' (between $12-$60) as well as the EML to contribute to small volunteer fire services in certain districts.	Variable charge based on: • **Levy Class** - five classes where properties are categorised based on the kind of fire services provided in their area. Classes with greater fire service provision are charged more. • **Levy group** - properties are classed into 16 levy groups based on the use of the property. Each of these 16 groups has an EML rate for each levy class. Group 1 is largely vacant land, Group 2 is largely single residences, and Groups 3-16 are commercial properties increasing in size and risk factors.	Some property types in Levy Class E (located in rural areas) are not included in the EML, e.g. cemetery, library. A 20% discount is available for pensioners and repatriation health card owners.

New South Wales: Around 75% funded through a levy on property insurance collected by insurers, 10% from increased stamp duty revenue from insurance levy and the remainder from local and state government.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Fire and Rescue NSW, NSW Rural Fire Service and NSW State Emergency Service.	No charge.			2009/10 data suggested 5% of home owners don't have building insurance and 36% of households did not take out contents insurance. There is an Insurance Monitor appointed to hold insurance companies to account.

Tasmania: Around 45% funded through a Fire Service Contribution (FSC) collected by local government, 20% from Insurance Fire Levy collected by insurance companies, 9% from Motor Vehicle Levy, and the remainder from contributions from State and Federal government and revenue received from the State Fire Commission (through user charges and provision of training services).

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
State Fire Commission responsible for the Tasmania Fire Service, and funds the State Emergency Service.	Flat fee collected as part of registration fee. $17 per vehicle in 2017/18	Residential and rural properties are charged a fixed levy ($336 in 2018).	FSC is based on: • **Land Rating** which represents the type of fire service the area receives, and • **Assessed value of the property.** Insurance Fire Levy: Only applies to businesses, not households. The rate of the levy depends on the nature of the business.	There is a minimum levy which is adjusted with the CPI ($39 in 2017/18). Pensioners and health card holders receive discounts on their FSC. The FSC does not apply to a broad range of land including that owned by local council, the Crown, most Government Business Enterprises or to Commonwealth land, to which a fire protection services agreement applies. The Motor Vehicle Levy doesn't apply to caravans, horse floats, motorcycles or trailers.

Washington State: Funding ratios vary by district, but for example, one district received about 48.5% of funding from a Fire Benefit Charge (FBC), 42.5% from property tax, 1.5% from transport fees, 5.5% from government contracts and the remainder from permits, fees and other revenue.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Regional Fire Authorities operate in districts/ counties.	No charge	No charge	Fire Benefit Charge = property size x 18 x category factor x response factor x discount x hazard factor. • **Property size** is the square footage of each property. • **Category factor** - properties generally categorised into one of four (residential, mobile homes, apartments and commercial). • **Response factor** - the 'cost per gallon' of providing fire services. • **Discounts** - reductions for the elderly; properties with sprinklers; alarms and other factors. • **Hazard factor** (only included in a couple of districts) - the degree of risk caused by the use, processing, or storage of hazard materials within a building. The hazard factor reflects the need for larger and/ or more specialised response forces.	Properties owned by religious organisations used for religious services are exempt from the FBC. Other common exemptions are public schools (because they already pay a per student stipend for fire services), federal property, and entities who contract with the fire service. All districts have discounts for the elderly and certified sprinkler systems. Some districts also provide discounts for properties with monitored fire-alarm systems and discounts for auxillary structures like barns or storage sheds used in agricultural operations.

Florida: Varies, but Districts that use assessments usually fund 30-50% of their budget through them, with the remainder coming from property tax.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
District brigades.	No charge		Assessment example: Gainesville - 'Factored Fire Protection Units' (FFPU) are used as a proxy for fire-fighting resources required to provide fire protection to a particular building. Fire assessment charges are based on its number of FFPUs. FFPUs are calculated using a property's **hazard classification**, its **total square footage** and **historical demand for fire services**.	There is an elderly discount and a low-income discount available. There is also a 10% discount available for properties with approved automatic sprinklers.

Denmark: 2/3s of Danish municipalities are covered by a private Multinational organisation 'Falck'. Falck contracts with the local government of each municipality, charging annually for full coverage of a district (regardless of the number of incidents). The remainder are funded by local government.

Fire and Emergency structures	Motor vehicles	Fixed charges	Variable charge factors	Exemptions or discounts
Falck operates internationally, operating across four business areas: Emergency, Assistance, Healthcare and Safety Services. Fire services fall within 'Emergency', but Denmark is the only jurisdiction where they provide public firefighting brigades (elsewhere they provide industrial fire brigades).	No charge	No charge	No charge	N/A

Te Tari Taiwhenua
Internal Affairs

New Zealand Government

Funding regimes for New Zealand's fire services then and now

This document provides some extra detail of how New Zealand's fire services were funded in the past and how they are currently funded

Before 1 July 2017 - Pre-amalgamation of fire services

Before 1 July 2017 we had two fire services:

- **The Urban Fire Service** or the New Zealand Fire Service (NZFS) was the country's national firefighting organisation. It was operated by the NZFS Commission and consisted of paid and volunteer brigades.
- **The Rural Fire Service** consisted of 52 Rural Fire Authorities, including Enlarged Rural Fire Districts (which are amalgamated Rural Fire Authorities). The National Rural Fire Authority (part of the NZFS Commission) coordinated rural fire services. Rural Fire Authorities had paid staff and volunteers.

The Urban Fire Service was primarily funded by the fire service levy. This was a levy on insurance of property covered against the risk of fire. Before the amalgamation of the fire services, the levy rate was 7.6 cents per $100 of the amount insured against fire.

The Rural Fire Service was funded through a number of different funding sources, including:

- Local authority rates for rural Fire Authorities
- Forestry companies helping to fund Rural Fire Authorities of which they are a part
- Fire service levy and DoC contributions to the Rural Firefighting Fund and the costs of the National Rural Fire Authority
- Costs could be recovered from persons responsible for fire.

There were also private forest owners and industrial brigades that provided independent services for rural fires.

1 July 2017 to present - Transitional levy regime

In 2017, the urban and rural fires services joined to form Fire and Emergency New Zealand (Fire and Emergency)

A transitional levy regime was established to **fund Fire and Emergency** to ensure the newly combined fire services were funded during their reorganisation period. The transitional regime is largely a carry-over of the previous insurance levy which funded the Urban Fire Service. It is primarily levied on contracts of insurance covering against the risk of fire.

The rate of levy was increased to 10.6 cents per $100 of the amount insured against fire. This increase was to cover the increased costs and extended mandate of the newly amalgamated Fire and Emergency NZ.

The following caps apply to the transitional levy:

- $8.45 per vehicle < 3.5 tonne gross laden weight
- $106 per residential building
- $21.20 for residential contents

Government also contributes $10 million per annum for non-fire responses.

An updated funding regime was established through the Fire and Emergency New Zealand Act 2017 (FENZ Act) and is outlined in more detail below. The transitional regime allowed time for the insurance industry to update their systems so that they could implement the updated levy regime.

Updated levy regime in the FENZ Act

The updated levy regime aimed to broaden the base of levy payers, and make the insurance-based system more equitable.

The levy regime from Part 3 of the FENZ Act would make these modifications to the transitional levy:

- the levy would apply to contracts of property insurance against physical loss or damage, whatever the cause of loss or damage (i.e. not limited to damage by fire)
- the levy would apply to third party insurance for motor vehicles
- the levy would be calculated based on the amount insured for the property, rather than the indemnity value of the property
- different rates could be set for residential and non-residential property.

The rate(s) of the new levy regime were not determined, and would only have been set after public consultation. Any exemptions and/or caps would have also been established at this time.

The Government decided to review how Fire and Emergency is funded, so deferred the commencement of the regime to allow time for the review to take place. The intention of the funding review is to replace the updated regime in the FENZ Act with a fairer way of funding Fire and Emergency.

Property data and Fire and Emergency NZ funding

The Government is reviewing the way Fire and Emergency is funded

This A3 supports the public discussion document on high level funding options, released in October 2019. More information is available at dia.govt.nz/FireFundingReview

What is property data?

A rating information database holds a lot of information about properties in a council's area.

The piece of information most people know about is the valuation of the property. This is a dollar figure, worked out every three years, which lets you know how much the property should be worth at the time the valuation is completed. Three different valuation methods are possible: capital, land and improvement value.

Capital value: the likely sale price of the whole property.

Land value: the likely sale price of the land.

Improvement value: the difference between the capital and land value (i.e. the value of buildings and improvements on the land).

We would have to decide whether to work out the Fire and Emergency levy based on capital, land or improvement value. There would be pros and cons of each option. For example, using land value would likely mean that properties in different parts of the country paid different amounts, depending on the local property market. This could be mitigated by capping the amount of levy you pay.

But the rating database holds a lot of other information as well. This includes information about:

- the property's size, both in terms of the buildings and the total land area
- the composition of the buildings (e.g. concrete roof tiles, or brick veneer walls)
- the year of construction.

What options are we looking at?

For the Fire and Emergency funding review, we are thinking about two main options for dealing with property data:

Option One: Property features

- Under this option, the features of the property that are held in the rating information database would be used to determine how much Fire and Emergency levy the property owner would pay.
- At its most basic, this would mean using just one feature of the property (e.g. just the value, or just the building size).
- This option could be made more sophisticated by using other information such as the size of the property, construction, age, or any other information in the rating information database.

Option Two: Property features and use

- This option would be the same as option one, but would also consider what the property was used for.
- Property use would provide further information that could relate to fire risk, or the sort of contents likely to be found in or on a property. For example, a residential property could be assumed to contain typical household contents.

What are the opportunities and challenges?

The benefits of using property information in this way would be:

- Information is held on most properties. Even if a property is not rated, valuation data may still be held.
- The kinds of information available are largely consistent across the country.
- Valuation information is not commercially sensitive.

There are challenges to overcome if we use rating database information to charge FENZ levy:

- The main purpose of rating data is to set rates locally. There may be issues with its suitability to set a national levy.
- Rating information is useful as a benchmark against which the market value of a house might be worked out – but in some areas of the country that experience rapid growth in house prices it can quickly become out of date.
- The rating data is renewed only every three years, and rating revaluations occur at different times in different parts of the country (approximately one third of the country is revalued in any one year).
- Some land is valued but not rated, and so there may be problems with using these valuations to now set a levy. Examples of fully non-rateable land include parts of the conservation estate or land used as a wharf.

Hon Tracey Martin, Minister of Internal Affairs

Proactive release of Fire and Emergency New Zealand funding review papers
November 2019

The following documents have been proactively released:

1. 13 April 2018, Further advice on the levy regime under the Fire and Emergency New Zealand Act 2017, Department of Internal Affairs
2. 22 November 2018, Advice on large property owners' concerns with the Fire and Emergency levy regime, Department of Internal Affairs
3. 14 December 2018, Advice on first principles review of Fire and Emergency New Zealand's funding model, Department of Internal Affairs
4. 10 July 2019, FENZ funding review and local government, Department of Internal Affairs
5. 9 August 2019, Feedback on FENZ funding review draft discussion document, Department of Internal Affairs
6. 13 September 2019, Fire and Emergency New Zealand discussion document Cabinet paper, Department of Internal Affairs

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to Redaction Codes:

Section 9(2)(a) – Release would breach the privacy of a person, whether alive or deceased.

Section 9(2)(f)(iv) – Release would contradict the constitutional conventions which protect the confidentiality of advice given by Ministers and public service employees.

Section 9(2)(g)(i) – Release would negatively impact the future willingness of Ministers, Department of Internal Affairs employees, and others to provide free and frank advice and opinions in the course of their duty.

Section 18(d) – Release is unnecessary as the information is already publicly available, or will be publicly available soon.

Internal Affairs briefing

Hon Tracey Martin
Minister of Internal Affairs

Title: **Further advice on the levy regime under the Fire and Emergency New Zealand Act 2017**

Date: 13 April 2018

Key issues
At your meeting with officials on 13 March 2018, you directed the Department to look into options to retain the status quo for the levy regime that funds Fire and Emergency New Zealand, and address concerns from large policyholders about their expected levy increase. Insurers have advised us that they cannot build the systems necessary to meet the 1 July 2019 deadline for the implementation of the new levy regime.

Action sought	Timeframe
Agree to preserve the Fire Service Act 1975 levy provisions and current levy rates for an additional 12 months while large policyholders' concerns are investigated (the Department's preferred option).	By Tuesday 17 April 2018

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1st contact
Raj Krishnan	General Manager Policy		s9(2)(a) [redacted]	✓
Steve Kerr	Policy Manager	04 494 0507	s9(2)(a) [redacted]	

Return to	Fergus Broom, Level 9, 45 Pipitea street
Ministerial database reference	IA201800196

Purpose

1. Following your discussion with officials on 13 March 2018, this briefing provides you with:
   - advice on the likely impact of the current policy settings for Fire and Emergency New Zealand's (FENZ) levy regime on different groups; and
   - options to mitigate the impact of the upcoming levy changes on some large organisations.

Executive summary

2. Upcoming changes to the legislative levy regime that funds FENZ and levy rates will see levy decrease for households and many small and medium businesses from 1 July 2019. You have heard concerns raised by some large policyholders who are facing significant increases when the new levy regime comes into force.
3. You indicated to officials your preference to preserve the current legislative system and current levy rates:
   - in order to avoid further change and disruption; and
   - on the basis that the current system and rates are sufficiently funding FENZ and have been accepted by public.
4. Preserving the current legislative system and current levy rates will require an Act of Parliament. Without legislative amendment, the levy provisions of the Fire Service Act 1975 which are in force at present will be replaced by the new provisions of the Fire and Emergency New Zealand Act 2017 (the Act) on 1 July 2019.
5. We recommend delaying commencement of the levy regime components of the Act by 12 months to 1 July 2020. This will allow time to gather further information and give proper consideration to the large policyholders' concerns. This would also relieve implementation pressure on insurers to meet the current 1 July 2019 commencement date.

Under current policy settings and proposed rates, levy will decrease for households and many businesses when the Act commences in July 2019

6. Under the Act, the levy funding for FENZ will be calculated on motor vehicles, residential property (including contents) and 'non-residential' property.
7. Based on FENZ's current proposed levy rates and the changes to the way the levy is calculated, we expect that when the new levy regime under the Act commences on 1 July 2019:
   - **Residential properties** will see a significant decrease in their levy;
   - **Motor vehicles** will see a slight increase in their levy (this will be offset by the decrease for residential properties, for households that insure both); and
   - Depending on their property and insurance arrangements, **businesses and other non-residential entities** will either:
     - Pay less levy (mainly for newer buildings); or

- Pay the same or more levy (particularly for older buildings); a few may pay significantly more (buildings that insure against fire damage through a 'split perils' policy).[1]

8. A detailed description of the impacts of the levy changes is provided as **Appendix A**.

Some large stakeholders have raised concerns with levy changes

9. You met with the Property Council of New Zealand (PCNZ) on 15 February 2018. PCNZ argued that the levy is an inequitable funding mechanism, because it takes no account of property use and risk mitigation measures (such as sprinklers) put in place by building owners. PCNZ indicated a preference for a move to a more sophisticated system where the levy calculation takes account of some combination of property use, value, location, and size.[2]
10. During the fire reform process over the last two years, other organisations with significant property holdings have raised similar concerns. Some, with split perils policies, expect to face very large levy increases as a result of the change from fire damage to material damage (see **Appendix A**). They submit that split perils policies are a rational and legitimate way to structure insurance and reduce insurance costs.
11. It is very difficult to estimate the number of organisations affected in this way, and the scale of the increases they face. It is possible that some organisations misunderstand their likely levy liability under the new legislation, or the drivers behind any increase.

Complexity of changes to the levy regime and levy rates, and the lack of comprehensive information about insurance contracts, make it difficult to accurately assess all impacts

12. Because the levy paid by any given business or organisation depends on the nature of their private insurance arrangements, it is difficult to generalise about impacts of the levy changes on non-residential property owners. Different amounts of levy can correctly be paid on two identical properties that are insured in different ways.
13. Further, the Fire Service Act 1975 did not allow the previous New Zealand Fire Service or FENZ to collect information on insurance contracts for which levy is paid (the new regime will provide for this). We therefore have limited information about the insurance contracts on which levy is paid.
14. However, given the complexity of the issues and the commercial sensitivity of the details of insurance arrangements, more time is required to fully understand the concerns raised by PCNZ and others before proposing steps to address them. This is reflected in our advice below.

Insurers do not consider they can build the appropriate systems to meet the 1 July 2019 deadline

15. Insurers have told us that they cannot begin building new systems until the details of the legislative regime, including the levy regulations, are finalised. Once the regime is finalised insurers have told us they will need a 15 month lead-in time to implement and test their new systems.

[1] 'Split perils' involves policyholders, generally those with large buildings or property portfolios, insuring for a lower sum against fire damage, than for other risks such as earthquakes or severe weather events.

[2] A number of Australian states have moved to this kind of model recently. These and other international examples are described in a report by TDB Consulting commissioned by PCNZ.

16. As some regulations are still being drafted (in consultation with the insurance sector), and we will need to make legislative changes to the Act, insurers have advised us that they cannot have systems in place for the 1 July 2019 deadline.

17. Both of the options outlined later in this briefing will have the added benefit of providing insurers with sufficient time to implement the new levy regime.

You have indicated a preference to preserve the status quo

18. On 13 March 2018, you met with officials to discuss levy impacts and alternative approaches. s9(2)(g)(i) [redacted]
    - s9(2)(g)(i) [redacted]
    - s9(2)(g)(i) [redacted]
    - s9(2)(g)(i) [redacted]
    - s9(2)(g)(i) [redacted]

19. We have developed two policy options to give effect to idea of 'preserving the status quo' and addressing large policyholders' concerns.

Option A: Preserve Fire Service Act levy provisions and current levy rates for an additional 12 months while concerns are investigated

20. This would involve extending the transitional levy period (as defined in subpart 3 of Schedule 1 of the Act) by one year to 1 July 2020, and freezing the legislative regime and rates as they currently are. The levy paid by policyholders would be calculated in the same way using the same rates in 2019/20 as it was in 2017/18 and 2018/19. This would require an amendment to the Act.

21. During this period the levy provisions of the Fire Service Act 1975 would remain in force, while the levy provisions in Part 3 of the Act remain 'on hold'. Current levy rates (of 10.6 cents per $100 of insured property and $8.45 per motor vehicles under 3.5 tonnes) would also remain in place.

22. This extended period would provide an opportunity for information gathering and analysis relating to large policyholders' concerns. Once we reach a shared understanding of the drivers of any inequitable increases for large policyholders, we would seek to address these as appropriate. However, any changes would only be made through existing mechanisms under the levy regime, such as adjusting levy caps, setting different rates for different types of property, levy relief, or exemptions. This would not be a 'first principles' review of FENZ's funding model.

23. The advantages of Option A compared with the policy settings currently contained in the FENZ Act (the current settings) are:
    - further work can be undertaken to address (if appropriate) concerns of large policyholders regarding the equity of the new levy regime;
    - while this work is being carried out, potentially large increases for some large policyholders with split perils policies are temporarily avoided; and

- the implementation pressure insurers are facing to build their new systems is relieved.

24. The disadvantages of Option A compared with current settings are:
    - This could cause some uncertainty for FENZ, stakeholders, public over the long term policy direction for the levy regime – though this could be mitigated through clear and consistent messaging on the scope of the work to review policy settings.
    - Many policyholders will continue to pay more levy than they would under current settings, including residential home owners and businesses that insure property to replacement value. Some stakeholders may object to the fact that the relatively high transitional levy rate will remain in place for three years (from 1 July 2017 to 30 June 2020), when it was set on the basis of being place for one year.
    - The commencement of the modernising provisions in Part 3 of the Act which improve the transparency, accountability, and certainty of the levy regime would be delayed by 12 months. These include:
        - regular review and public consultation on rates, to minimise cross-subsidisation between broad category types (residential, non-residential, motor vehicle);
        - anti-avoidance and dispute resolution regimes;
        - updated penalties and offences to improve compliance;
        - improved audit and information powers for FENZ.

Option B: Preserve Fire Service Act levy provisions and current levy rates for three years to allow for a fundamental review of funding model

25. This would involve extending the transitional period in the same manner as Option A, but for 3 years to July 2022. This additional time could be used to undertake a 'first principles' review of FENZ's funding model which considers options such as general taxation or property-based funding. PCNZ and other stakeholders have called for a review of this nature.
26. Subject to significant consultation and analysis, Cabinet agreement, and the passing of an amendment to the Act, the new funding regime would commence from 2022.
27. The advantages of Option B compared with current settings are:
    - we would have an opportunity to evaluate the pros and cons of different funding models, which has not been done in detail under the current review;
    - large policyholders' concerns about the equity of the new levy regime are temporarily avoided;
    - implementation pressure for insurers is relieved.
28. The disadvantages of Option B compared with the current settings are:
    - this would cause considerable uncertainty for FENZ and stakeholders over the direction for the levy regime, and some stakeholders may seek to re-litigate other aspects of the reforms;
    - there may be difficulties with adjusting the transitional levy rate over this period. This would in effect tie FENZ's levy revenue to increase with 'natural growth' of the base (i.e. increase in numbers of houses/cars and increases in value of non-residential property). FENZ's levy revenue will therefore vary from its costs resulting in a potentially large surplus or deficit;

- the same disadvantages for option A around extending the high transitional levy rate, and delaying the commencement of the modernising provisions of the levy regime would exist, but would be exacerbated as this would occur over 36 months rather than 12 months.

Options Analysis

29. Below, we assess the two options and current policy settings against the policy principles for the levy regime set out in the Act. We also take into account the need to ensure that FENZ has sufficient income for its costs in 2019/20 and out-years; and to avoid any disruption to FENZ's integration programme.

Current policy settings are sound…

30. FENZ Act introduces important changes to the levy regime which will improve the equity and transparency of the regime. Perhaps most importantly, the Act requires regular review and public consultation on FENZ's costs and proposed levy rates. This will ensure equity between the broad property categories insofar as, for each category, the levy collected will reflect the costs of FENZ's services.

31. As noted above, it is difficult to assess the impacts of the changes on all policyholders, as these impacts will vary and depend on individual insurance arrangements. However, some changes (in particular the shift from calculating the levy on fire damage to material damage) may have a significant impact on some large entities. Cabinet recognised this in 2016, and agreed that regulations should mitigate the impacts of levy changes on affected entities.

…but stakeholder concerns warrant our attention

32. Since Cabinet's 2016 policy approval, we have gathered more information on the potential scale of the impact of the change to material damage on some large policyholders. We also now have the benefit of draft levy rate proposals, which give clearer a picture of the likely impact.

33. FENZ's proposed rates should ensure equity between the three broad property categories, but inevitably within the non-residential category there will be some winners and losers.

34. The Act's principles explicitly state that equity does not require a strict apportionment based on costs. Nevertheless, some projected steep increases in levy payments may not reflect an increased call on FENZ's services. On the face of it, this appears inequitable.

Option A best balances the need to address stakeholder concerns without putting the momentum of the overall reform at risk

35. We recommend Option A: preserving the current levy provisions for 12 months. This option provides the opportunity to investigate and, if necessary, address some potential inequity in the current levy system. The 12 month delay is also necessary to allow insurers to implement their systems.

36. This option does carry some risk of stakeholders seeking to re-litigate more fundamental elements of how FENZ is funded. However, this can be managed through clear messaging that:

- we will only be considering possible adjustments that can made within the existing levy system (levy caps, setting different rates for different types of property, transitional levy relief, or levy exemptions); and
- fundamental changes, such as moving to a taxation or property-based funding system, are not up for consideration.

37. This will also provide more certainty to FENZ and stakeholders than Option B.

Implementation

38. FENZ's integration programme is a very large, complex undertaking and is at a critical point. FENZ has worked hard to win and maintain the confidence of external and internal stakeholders as it implements the reforms.

39. It is vital that any legislative change to the levy regime does not disrupt the integration programme. This can be achieved by:
    - ensuring sufficiency of levy revenue in 2019/20 and out years;
    - clarity on the limited scope of any change in levy policy;
    - a clear timeline to implement any change through an Amendment Bill – with any delay to levy commencement minimised as much as possible; and
    - clear messaging that all other elements of the integration are proceeding as planned.

Next steps

40. Following your direction, we will carry out further policy work and information gathering. This will include fuller in-confidence discussions with FENZ and insurance sector representatives, legal advice to confirm viability of options, and more detailed work on implementation and timing.

41. The recently prepared discussion document on levy rates for 2019/20 and 2020/21 would need to be reworked to reflect the impact of the policy change on the non-residential levy base (and any other implications). Other work on the legislative regime would proceed as usual, including regulations relating to: local advisory committees, infringement offences, and fire plans. The levy regulations (for exemptions and other matters) are also likely to proceed in their current form.

42. Subject to the outcome of this further work, we will seek your approval to prepare the relevant Cabinet papers to give effect to your preferred option through a Bill amending the Act. We consider the Bill could be progressed under the following timeframes:
    - **June 2018**: Cabinet approves policy for Amendment Bill
    - **October 2018**: Cabinet approves Amendment Bill for introduction into the House
    - **April 2019**: Select Committee reports back on the Amendment Bill
    - **June 2019:** Bill enacted

43. These timeframes are ambitious but can be achieved if this Bill is given the appropriate priority in the House.

Recommendations

44. We recommend that you:

    a) **note** that following your direction, we have investigated options to retain the status quo for the levy regime that funds FENZ, and address concerns from large policyholders about their expected increase in levy;

    b) **note** that insurers do not consider they can build the appropriate systems to meet the 1 July 2019 deadline for the new levy regime, and that commencement of the levy regime will need to be delayed; and

    c) **agree** to preserve the Fire Service Act 1975 levy provisions and current levy rates for an additional 12 months while large policyholders' concerns are investigated (the Department's preferred option). **Yes/No**

Raj Krishnan
General Manager Policy

Hon Tracey Martin
Minister of Internal Affairs

_____/_____/_______

Appendix A: Summary of impact of upcoming levy changes on different policyholder groups

Residential levy will fall, motor vehicle levy will rise – and on balance households will be better off

1. FENZ's discussion document containing its proposed rates has not yet been approved for release by Cabinet. All figures used to describe levy impacts are based on the rates proposed in the draft discussion document.

2. Assuming FENZ's current proposed rates came into force on 1 July 2019, and assuming the levy caps remain in place at or near their current levels, the levy paid for residential house and contents will decrease.[3] If the current caps are retained, households will pay significantly less in levy each year s9(2)(f)(iv) [redacted]

3. The levy rate for motor vehicles will increase. At the same time, the basis on which the levy is calculated will change:
   - motor vehicle levy will apply to all motor vehicles (not just those under 3.5 tonnes, as at present), and
   - all contracts of motor vehicle insurance (not just comprehensive cover, as at present).

4. Car owners with comprehensive insurance will pay s9(2)(f)(iv) [redacted] more in levy annually. Motor vehicle owners with third party cover will pay s9(2)(f)(iv) [redacted] per vehicle when previously they paid nothing. For households that insure house, contents, and a car, the increase in motor vehicle levy will be more than offset by the reduction in residential levy.

5. Most owners of heavy vehicles over 3.5 tonnes will pay less than previously. This is because these vehicles will be subject to the flat annual rate of levy, when under the current regime levy is paid on these vehicles at the uncapped non-residential rate.

Impact of the changes will vary for non-residential policyholders – many will see a s9(2)(f)(iv) [redacted] ***reduction***

6. Assuming FENZ's current proposed rates came into force on 1 July 2019, the non-residential levy rate will decrease from s9(2)(f)(iv) [redacted] per $100 of property. In general, those who currently 'fully insure' their property (at replacement value) will pay s9(2)(f)(iv) [redacted] less in levy (as the levy rate drops by s9(2)(f)(iv) [redacted]).

Some owners of high value properties may see levy increases

7. Some policyholders will be affected by changes to the way levy is calculated, as well as the rate change. Depending on the net impact of the changes to the levy rate and the levy calculation on their particular circumstances, some policyholders may see a reduction in levy of less than s9(2)(f)(iv) [redacted], and others may see a levy increase.

8. At present, the levy is calculated on insurance against fire damage. Under the Act, the levy will be calculated on cover against any physical damage. This change will affect

[3] The value of residential property is capped at $100,000 for levy purposes. The level of the cap means in practice a flat rate of levy is paid on residential property, regardless of the value the house.

policyholders with so-called 'split perils' policies.[4] These policyholders currently pay levy on the lower cover fire damage, but under the Act will pay on the higher level of cover for physical damage. Where there is a significant gap between the levels of cover, policyholders will see levy increase in spite of the rate drop.

9. Other large policyholders with multiple buildings insure under a 'first loss' arrangement, where the level of cover is significantly lower than the total combined value of the property insured. Instead, the level of cover will reflect the maximum loss likely in a single event or year across the portfolio – and the policyholder carries the risk of a loss greater than the level of their cover. Because the levy is charged on the level of cover in insurance, not the property value, these policyholders may see a reduction in levy.

Some owners of older buildings may see levy increases

10. At present, those that insure older buildings generally pay levy on the indemnity value of their property, rather than the sum insured or replacement value in the insurance policy. Under the Act the levy is calculated on the sum insured. So for some owners of older buildings (large and small) the annual levy paid may increase, in spite of the rate drop. This will happen where the gap between the property's indemnity value of the sum insured in the insurance contract is significant enough that it is not counteracted by the drop in rate.

Owners who insure property types for which levy exemptions are being discontinued will see increases

11. The previous government approved the policy on levy exemptions in July 2017. Levy exemptions for some of the property types which were exempt under Schedule 3 of the Fires Services Act 1975 will be discontinued after July 2019. For example, exemptions on forests, some aircraft, power lines and power poles, and hazardous substances will be discontinued. Those who insure property for which levy exemptions are being discontinued will see increases as they begin paying levy on that property.

[4] Some policyholders, generally those with large buildings or property portfolios, insure for a lower sum against fire damage, than for other risks such as earthquake or severe weather. This arrangement is known as a 'split perils' policy.

Internal Affairs briefing

Hon Tracey Martin
Minister of Internal Affairs

Title:	**Advice on large property owners' concerns with the Fire and Emergency levy regime**
Date:	22 November 2018

Key issues
Following your direction, we have investigated concerns from large property owners about their potential levy increases under the new fire and emergency levy regime. We do not consider the increases are inequitable, but accept that they may be disruptive for some businesses. We have considered options to mitigate these increases.

Action sought	Timeframe
Discuss options for mitigating levy increases for large property owners at your meeting with officials on 26 November.	9:30am 26 November

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1st contact
Steve Kerr	Policy Manager	04 494 0507	s9(2)(a) [redacted]	✓
Fergus Broom	Senior Policy Analyst	04 494 0519		

Return to	Fergus Broom, Level 9, 45 Pipitea Street
Ministerial database reference	IA201801117

Purpose

1. This briefing provides you with advice on the impacts of the new levy regime for various property owners. It provides options for mitigating levy increases for owners of large property portfolios.

Executive summary

2. Following your direction in April 2018, we have investigated concerns from large property owners about their potential levy increases under the Fire and Emergency New Zealand Act 2017 (the FENZ Act). We acknowledge that some property owners are facing significant increases. However, this is because they were paying less levy than smaller property owners under the previous regime relative to the value of their properties. The new regime will distribute levy more equitably across property owners.

3. Having said that, we recognise that these levy increases will be disruptive for businesses and have therefore identified three options to mitigate these increases:
   - reverting to the previous levy calculation under the Fire Service Act 1975;
   - continuing with the levy changes under the FENZ Act, but creating a system to reduce levy for buildings that meet certain safety standards; and
   - undertaking a first principles review of Fire and Emergency New Zealand's (FENZ's) funding model, with a view to moving away from an insurance-based model.

4. We have compared these options in terms of their overall fairness and levels of disruption for businesses (see **Appendix A**). Regardless of any option you choose, FENZ will remain funded. We recommend you discuss these options further at your meeting with officials on 26 November 2018.

Background

5. Historically New Zealand's fire services have been funded largely by a levy on property insurance under the Fire Service Act 1975. In 2015 and 2016, the Government agreed to unify New Zealand's fire services under a national organisation, Fire and Emergency New Zealand (FENZ). During the reforms it chose not to pursue other funding options for the fire services (such as general taxation), but rather to review and modernise the existing insurance levy model [CAB Min (15) 15/19 refers].

6. Part 3 of the FENZ Act will introduce the new levy regime, which is currently scheduled to take effect on 1 July 2020. The new regime will introduce new modernising provisions including a three yearly review cycle for levy rates, anti-avoidance provisions, and a levy dispute resolution process.

7. The FENZ Act will also make several changes to the way levy is calculated. These are:
   - levy will be calculated on the level of insurance cover against physical damage to property (e.g. an earthquake) rather than on cover against fire damage (which was the case under the Fire Service Act); and
   - levy will be charged based on the 'amount insured' in the contract (the maximum that can be paid out under the terms of the contract), rather than the indemnity value (depreciated value) of the property (which was the case under the Fire Service Act).

8. Since the establishment of FENZ on 1 July 2017, a transitional levy regime has been in place. Under this regime, the levy provisions of the Fire Service Act remain in force,

with an increased levy rate (of 10.6 cents per $100 of property[1]) in place to meet the increased costs of the new organisation.

9. At the same time as the new levy regime in the FENZ Act comes into force, new levy rates will also come into force. These new rates will ensure that the correct levy revenue is collected to fund FENZ, given the new levy calculation described in paragraph 7 above. The net result of the changes to the levy calculation will be that levy base is broadened (that is, the total value of property subject to levy increases). This means that a given levy rate will collect more levy under the FENZ Act provisions than it would have under the Fire Service Act.

10. Figure 1 shows the three distinct phases of the levy regime described above.

Figure 1. Sequence of changes to levy regime

Phase	**Old regime**	**Transitional regime**			**New regime**
Legislative provisions	Fire Service Act 1975	Provisions of the Fire Service Act (saved by Schedule 1 of the FENZ Act)			Part 3 of the FENZ Act 2017
Financial years	Up to 2016/17	2017/18	2018/19	2019/20	2020/21 and on
Levy rate	7.6c per $100 insured	10.6c per $100 insured			TBC
Levy calculated on	Fire damage & indemnity value	Fire damage & indemnity value			Material damage & amount insured in contract

↑
FENZ established here

11. Under the old and new levy regimes, levy rates will be set for three different classes of property: motor vehicles, residential property (including contents), and other property (including commercial and other non-residential buildings). The impact of the levy changes on different property owners will vary depending on the final levy rates set under the new regime, as well as on the type of property insured and on individual insurance arrangements.

12. The levy rates to apply from 2020/21 will be set in mid-2019. These rates will depend in part on FENZ's operating costs during 2020/21 and subsequent years. Work to estimate these costs is still ongoing.

The changes to the levy calculation under the new regime aim to improve equity between commercial property owners

13. The changes under the new levy regime are not designed to provide FENZ with additional funding. Any levy regime could fund FENZ's costs, as long as the levy rate is set appropriately. Rather, the changes aim to ensure that levy is applied more equitably across levy payers than under the old regime.

14. Section 80 of the FENZ Act establishes equity as a principle of the levy regime. It provides that policyholders should pay levy at a level commensurate with their use of, or benefit from the potential to use, FENZ's services. The levy paid by a property owner should therefore broadly reflect the value of the property. An owner of a

[1] All levy rates referred to in this document exclude GST.

portfolio of properties worth $2 billion has greater benefit from the potential use of FENZ's services than the owner of a single $3 million building, for example.

15. Under both the old and new regime, owners of residential property and motor vehicles in practice pay a flat rate of levy. This is equitable because FENZ's response to an emergency involving a house or vehicle is very similar regardless of the value of that house or vehicle.

16. This is not the case with non-residential property, where the value and nature of property varies widely. Proposed changes to the levy calculation will impact some non-residential policyholders more than other insureds. Some large non-residential property owners have raised concerns with their potential levy liability under the new regime.

We have investigated large property owners' concerns with the new levy regime following your direction

17. In April 2018, you directed us to investigate concerns from some large commercial property owners about their potential levy increases under the new levy regime (IA201800196 refers). We attended a meeting with a group of large property owners held by the Property Council in August 2018 to better understand their concerns. We have since gathered information from their members to clarify the drivers behind any potential levy increases.

18. The large property owners raised two main concerns with us:

    18.1 that any insurance-based funding model will allow uninsured parties to 'free ride', that is they will receive the benefits of FENZ's services while not contributing towards its costs and will drive under-insurance; and

    18.2 that the particular changes to levy calculations proposed in the FENZ Act (described in paragraph 7) will create very significant levy increases for some large property owners.

19. These concerns, and our responses, are outlined below.

Some 'free riding' is inevitable under any insurance model, but available evidence suggests this is not a significant problem in New Zealand

20. Large property owners told us that they are concerned that levying property insurance means that people who do not insure, or self-insure their property, will not pay levy.[2] They consider this inequitable, as these property owners will still benefit from FENZ's services.

21. Free riding is an inherent drawback of any insurance levy regime. However, while there is little accurate data available on rates of commercial insurance, there is anecdotal evidence that the majority of property is insured in New Zealand. Additionally, some large property owners that do not insure, or self-insure their properties also make voluntary good corporate citizen contributions to FENZ.

22. Property owners also raised concerns about how the system will drive insurance behaviour in the commercial sector. Many were concerned that levy increases under

[2] Self-insurance involves setting aside a pool of funds to cover potential losses rather than purchasing property insurance.

the FENZ Act, combined with other cost increases, could drive insurance rates down in New Zealand.

Concerns with levy increases stem from the levy rate increase, and other issues relating to the insurance arrangements of some large property owners

23. Large property owners' concerns with potential levy increases under the new regime can be tied to three main drivers:

- the increase in the levy rate during the transitional regime (on 1 July 2017 the levy rate increased by 40 per cent from 7.6 cents to 10.6 cents per $100 insured; this rate is intended to remain in place for the duration of the transitional period);
- the change to levying property insured against material damage rather than fire damage; and
- the change to levying the amount insured in the contract, rather than the indemnity value of the property.

24. The increase in the levy rate during the transitional regime is necessary to fund FENZ as a unified organisation and cannot be avoided during the transitional period. Increases resulting from the second driver, the change to levying material damage, will vary widely depending on individual property owners' insurance arrangements. Property owners we spoke to did not raise concerns with the third driver, as the change to levying the amount insured in the contract rather than the indemnity value only affects older buildings (e.g. churches).

The change to applying the levy to material damage will increase levy costs for some large property owners under the new regime…

25. The rationale behind the change to calculating levy on the level of insurance cover against material damage (rather than fire damage as it was under the old regime) was:

- some large property owners insure their property for different amounts against physical damage and fire damage, and are levied against their (lower) fire damage cover;
- FENZ responds to many non-fire emergencies (such as earthquakes, floods, storms, hazardous substances emergencies), so having only those with fire insurance fund FENZ is inequitable; and
- large properties often require very complex and costly responses from the fire services, which is currently not reflected in their levy contribution (EGI-16-MIN-0064 refers).

26. Generally speaking, the property owners who have raised concerns about significant levy increases under the new regime insure their property for a lower sum against fire damage than for physical damage. This structure is known as a 'split perils' policy.

27. Usually, large property owners that adopt split perils cover do so where they are insuring multiple buildings under one contract. They will purchase fire damage cover to insure against a single worst-case scenario fire-related event, which is known as a 'first loss' policy. The level of fire damage cover is often low, as a single fire would only affect a small number of adjacent properties. A higher level of material damage cover is required to insure against a major earthquake (which could damage or destroy the entire portfolio of property over a wider geographic area).

28. While these property owners may pay significantly more levy under the new regime, their split perils cover means that they are currently paying less levy relative to the value of their property than most property owners. The more buildings a split perils contract insures, the lower the value of fire damage cover relative to the overall value of the portfolio. For example, one property owner was paying levy on their $320 million of fire insurance, covering a portfolio of buildings with a total value of $1.5 billion. For a smaller commercial contract insuring only one building (or a small cluster of buildings), the owner will typically insure for the full replacement value, because the property could be completely destroyed in a fire.

29. Based on the information we gathered from large property owners, a typical split perils policy might have a fire damage limit at about 14 per cent of the total value of the insured property.

…however large property owners utilising first loss will still often pay less levy than smaller property owners relative to their property value under the new regime

30. Property owners will still be able to utilise a first loss policy under the new regime, but will pay levy based on the material damage cover in the contract, rather than fire damage. Although a fire would likely only affect one or two properties in a portfolio, an earthquake might affect all properties in any one region, for example. This limit is typically higher than the level of cover against fire damage, but is still often lower than the replacement value of the property. Many property owners currently fully insure their properties against fire damage for full replacement value.

31. From the information gathered from property owners, those that insured at a rate lower than the full replacement value against physical damage did so at a rate at about half the overall value of their property. These property owners will therefore pay more levy under the new regime than owners of smaller properties relative to the value of their properties.

We do not consider that levy increases under the new regime are inequitable

32. Although some large property owners are likely to face significant increases as a result of the changes under the new regime, we do not consider that these increases are inequitable. Paying levy on their fire damage limit under the old regime allowed some property owners to lower their levy liability. As a result, relative to the value of their properties, small property owners are currently paying more levy than larger property owners. Large property owners' current levy liability therefore does not reflect their benefit from the potential to use of FENZ's services.

33. When levy is instead charged on material damage, these differences will be diminished and large property owners will pay a similar amount to other commercial property owners. This will mean that these property owners will pay an amount which is more closely related to the value of their properties, and will therefore be a better proxy for use of FENZ's services.

Significant levy increases would be disruptive for large businesses and organisations, so we have considered options for mitigating these increases

34. We have heard from some large property owners that these levy increases may necessitate staff layoffs or reduced insurance cover. We have considered options available to you to mitigate those increases.

35. These options are considered in terms of their benefits for overall equity, and the extent to which they mitigate disruption to large property owners. Options are described in detail below, and compared in the diagram attached as **Appendix A**.

Option 1: Amend the FENZ Act so that levy is calculated in the same way as under the old regime (on fire insurance and indemnity value)

36. Under this option, the levy calculation would remain as it was under the Fire Service Act 1975 (and as it is currently during the transitional phase). Levy would be charged on the level of fire damage cover rather than material damage cover, and the indemnity value of the property, rather than the amount insured in the contract.

37. It would be relatively simple to give effect to this approach. Subject to Cabinet policy approval, the second FENZ Amendment Bill (expected to be introduced in early 2019) would be amended to provide for the levy to be calculated in this way.

38. The advantages of this option would be:

- It would minimise disruption to large property owners associated with the significant levy increases for some property owners under the FENZ Act.
- Improvements to the old levy regime (such as anti-avoidance and levy rates review provisions) would be retained.
- Implementation of the regime would be simplified for insurers, as many of the complexities associated with the change in levy calculation (such as the definition of 'amount insured') would be removed.
- It could be implemented relatively quickly, to be in place in time for the 1 July 2020 commencement date.

39. The disadvantages of this option would be:

- It would continue the inequity of the old levy regime, where small commercial property owners pay significantly more levy relative to the value of their property than some large property owners with complex insurance arrangements.
- The levy rate would be higher than it would be under the current FENZ Act proposals, as FENZ's increased costs as a new organisation would need to be met from the existing levy base.
- The inherent drawbacks of any insurance model (including free riding and incentivising under insurance) would remain.

Option 2: Retain the levy calculations currently proposed in the FENZ Act, with new measures to reduce levy for buildings that meet certain safety standards

40. Under this option, the levy calculation in the FENZ Act would remain as it is, with levy charged on cover against physical damage and the amount insured in the contract. Regulations would be made to reduce levy for buildings that meet certain safety standards, such as sprinkler standards or building code standards. This would provide incentives for building owners to improve the safety of their buildings.

41. FENZ and insurers do not support introducing such a model at this time because they consider:

- there is currently no standard that provides an accurate proxy for the likelihood of a FENZ response (building use, rather than safety standards, is a much better predictor of the likely need for a FENZ response);

- it would therefore take a lot of time to develop an evidenced-based system; and
- introducing such a mechanism now would create a lot of uncertainty for levy revenue.

42. FENZ considers that it would take several years to determine what building standards have a meaningful impact on the likely call on their services. Nevertheless, given time a standard could be developed which would allow for levy to be reduced for buildings likely to have less call on FENZ's services. The threshold for becoming eligible for a levy reduction would likely need to be very high to prevent the system from capturing all commercial properties.

43. The advantages of this option would be:
    - Once established, it would incentivise positive behaviours for building owners.
    - It would retain the benefits of moving to a levy on material damage, ensuring larger business owners are paying a fairer share of levy costs.

44. The disadvantages of this option would be:
    - The inherent drawbacks of any insurance model (including free riding and incentivising under insurance) would remain.
    - It would require a significant time and work to establish levy reduction criteria that is well supported by evidence.
    - Implementation could be very complex for insurers and FENZ.

Option 3: Review FENZ's funding model, with a view to moving away from levy on property insurance

45. Under this option, the transitional period would be extended by two or three years through the FENZ (Levy) Amendment Bill currently through the House.[3] This time would be used to undertake a first principles review of FENZ's funding model. This review would consider funding options that might provide a better proxy for FENZ's services. This might include a levy based on property values, or general taxation (we provided a similar option in our April 2018 briefing to you on the levy regime - IA201800196 refers).

46. This review could also include consideration of a mixed funding approach where, for example, a proportion of FENZ's costs would be met by the Crown, with the remainder from a levy charged on property or insurance. Depending on final decisions following the review, implementation of the new system could be fairly quick (if the decisions was to fully fund FENZ from general taxation), or may take several years (if the decision was to establish a levy based on property values).

47. Depending on the final decision on the model, the advantages of this option would be:
    - It could provide for a more equitable model, by eliminating the 'free riding' associated with any insurance-based model.
    - It would remove the administration of the system from insurers.
    - Some funding models, such as general taxation, could remove expected disruption for some large property owners associated with the significant levy increases under the FENZ Act.

[3] If you pursued this option, we would not recommend continuing with the modernised levy regime under the FENZ Act only to have it replaced shortly afterwards.

48. Depending on the final decision on the model, the disadvantages of this option would be:

- Some funding models, such as a levy on property value, may create even greater levy increases for large property owners than the proposals currently under the FENZ Act. This is because those who insure on a 'first loss' basis would become liable for levy on the entire value of their property.
- The benefits of the modernising levy provisions of the FENZ Act would be lost during the transition period.

49. This type of change would be a significant undertaking for the Government. It would likely require long-term investment of resources from the Department.

We recommend you discuss options with officials

50. Overall, any insurance levy model has significant limitations. Adjustments can be made to improve the equity of the current system, but any insurance based regime will carry some risk of inequity, gaming, and negative incentives for insurance.

51. You might want to consider the options in terms of their overall fairness and their levels of disruption for businesses. Returning to the previous model would significantly reduce disruption for businesses, but would retain the unfairness of the previous regime for example. **Appendix A** compares the options against these criteria and provides a timeline for each.

52. Regardless of any decision you make on FENZ's funding model going forward, FENZ will remain funded. We are meeting with you on 26 November 2018 to discuss our advice in more detail.

Recommendations

53. We recommend that you:

a) **note** that we have identified three options for mitigating levy increases for large property owners:

i. revert to the levy calculation under the Fire Service Act 1975 while maintaining other aspects of the modernised levy system;

ii. retain the levy calculations in the FENZ Act, with some modifications to the system to adjust levy for building owners that meet safety standards; or

iii. undertake a 'first principles' review of FENZ's funding model, with a view to moving away from an insurance-based model;

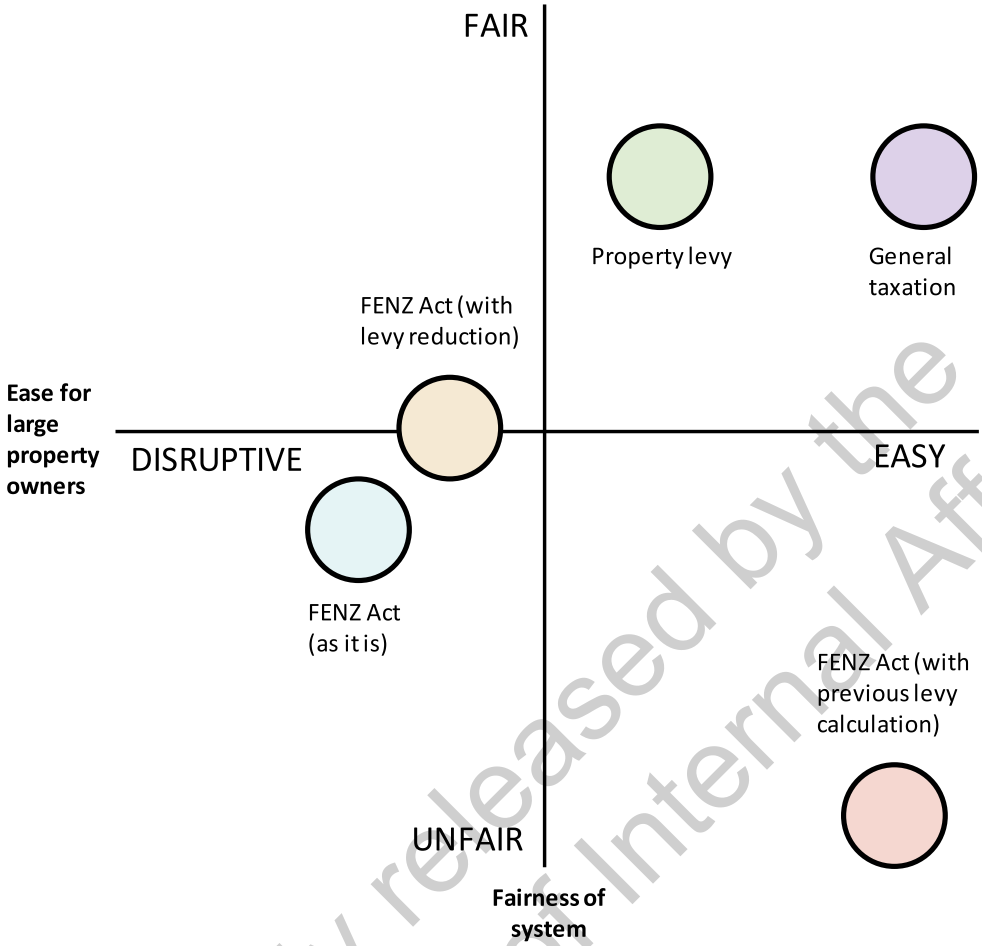
b) **discuss** each of these options at your meeting with officials on 26 November. **Yes/No**

Raj Krishnan
General Manager Policy

Hon Tracey Martin
Minister of Internal Affairs

____/____/____

Appendix A: Comparison of options for FENZ's funding model



Potential timeline for options

Option	2019	2020	2021	2022
FENZ Act (as it is)	• Finalise Amendment Bills	*1 July: New regime commences*		
FENZ Act (with previous levy calculation)	• Cabinet policy decisions to revert levy calculation • Bills progress through the House	*1 July: New regime commences*		
FENZ Act (with levy reduction)	• Levy commencement extended to 1 July 2021 • Working group established to consider appropriate standards • Cabinet policy decisions to recognise building standards	• Regulations developed to introduce system • 15-month lead-in time for insurers to implement the new system	*1 July: New regime commences*	
Property levy	• Transitional levy rate extended • First principles review of funding model begins, incl. public consultation	• Cabinet policy decisions on new model • Bill introduced	• Bill passed • Implementation	*New regime commences*
General taxation	• Transitional levy rate extended • First principles review of funding model begins, incl. public consultation	• Cabinet policy decisions on new model • Bill introduced	• Bill passed • Budget bid for 2022	*New regime commences*

Internal Affairs briefing

Hon Tracey Martin
Minister of Internal Affairs

Title: **Advice on first principles review of Fire and Emergency New Zealand's funding model**

Date: 14 December 2018

Key issues
We are seeking your decision on whether to initiate discussions with your Ministerial colleagues on a first principles review of Fire and Emergency New Zealand's (FENZ's) funding model.

Action sought	Timeframe
Agree to undertake a first principles review of FENZ's funding model. **Review** and **send** the attached letter to Hon Grant Robertson, Minister of Finance.	By Tuesday 18 November 2018

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1st contact
Steve Kerr	Policy Manager	04 494 0507	s9(2)(a) [redacted]	✓
Fergus Broom	Senior Policy Analyst	04 494 0519		

Return to	Fergus Broom, Level 9, 45 Pipitea Street
Ministerial database reference	IA201801215

Purpose

1. This briefing provides further information on a potential first principles review of Fire and Emergency New Zealand's (FENZ's) funding model. It seeks your decision on whether to proceed with a review and initiate discussions with the Minister of Finance.

Background

2. You met with officials on 26 November 2018 to discuss options to mitigate the effects of the transition to the new levy regime on some large property owners. You have subsequently sought further information on arrangements and potential timeframes for a first principles review of FENZ's funding model. The review would aim to identify a model that is more equitable than the current levy, and avoids the inherent drawbacks of an insurance-based model.

A review of FENZ's funding model could be completed by 2020, and a new regime could take effect from July 2021 at the earliest

3. Table 1 sets out a high-level timeline for a review of FENZ's funding model. We would expect the review, including public consultation, to take place during 2019 and 2020. The review would culminate in Cabinet policy approval of the new funding model. Following this, legislation would be drafted to give effect to Cabinet's decisions, and work would be done to prepare to operationalise the new model.

Table 1: Indicative timeline for review of FENZ's funding model

What	When (approx..)
Cabinet approves of terms of reference for review	February 2019
Drafting of discussion document	March – May 2019 (3 months)
Cabinet approves release of discussion document	June 2019
Public consultation	July – August 2019 (2 months)
Analysis of public submissions and subsequent policy work, including resolving implementation issues	September 2019 – March 2020 (7 months incl. summer break)
Cabinet approves new funding model	April 2020
In parallel: • drafting and legislative process for amendment bill to introduce new system • operational work to implement new system • public consultation and Cabinet approval for levy rates (if necessary) • budget process (if necessary)	May 2020 – June 2021 (14 months including summer break)
New regime commences (at earliest)	July 2021

4. Depending on the new model ultimately approved, the new regime could take effect as early as July 2021. However, more time may be required for legislative drafting, public consultation, and implementation, so the new model may not come into force until 2022 or 2023.

The transitional levy regime currently in place would be extended to fund FENZ during the review, and the transitional rate may need to be reviewed

5. As described in our previous briefing to you (IA201801117 refers), the transitional levy regime currently in place would need to be extended to fund FENZ while the review takes place. This extension can be achieved through the FENZ (Levy) Amendment Bill currently before the Governance and Administration Select Committee.

6. The transitional levy rate is currently funding FENZ.[1] However, it may need to be reviewed and increased before the new funding model comes into force. This would be necessary if FENZ's annual costs increase during the transitional period to the point where they cannot be met from levy revenue from the 10.6c rate.

7. FENZ has indicated that a review of the transitional rate may be required for the 2021/2022 financial year. It has also indicated that it may ask for its borrowing powers to be reviewed.

8. Our view is that such a review would be authorised by Schedule 1 of the FENZ Act 2017 (which provides for the transitional levy regime) in its current form. However, we will do further work to confirm this and if in fact legislative change is required this can be achieved through the FENZ (Levy) Amendment Bill.

The second amendment bill and proposed levy rates consultation would be halted

9. If you agree to proceed with a review of FENZ's funding model, the second FENZ Amendment Bill (which is currently being drafted but has not yet been introduced into the House) would no longer be required. This is because the amendments that relate to the current levy-based system will not be necessary, and the non-levy related amendments are not time critical.

10. Similarly, public consultation on the levy rates to apply when the FENZ Act levy regime comes into force (scheduled to take place in March and April 2019), would not be required. This is because while the 10.6c transitional rate is to remain in force, no consultation is required.

You may wish to canvass your Ministerial colleagues before seeking Cabinet approval to proceed with the review

11. We understand you wish to discuss the review with the Minister of Finance. A draft letter is attached for your review. Officials will be available to attend any follow-up meeting with the Minister of Finance. As a review would include consideration of a range of models, it would be of interest for a range of Ministerial portfolios, such as:

Table 2: Potential interests for Ministerial portfolios in a review of FENZ's funding model

Portfolio	Potential interest
Local Government	Depending on the outcome of the review, local government could play a role in implementation of a property levy (as is the case in overseas jurisdictions)
Revenue	Inland Revenue Department could provide advice on collection systems

[1] 10.6c per $100 of insured property.

Portfolio	Potential interest
Arts, Culture, and Heritage	Museum and art gallery collections are expected to be exempt from the current levy from July 2019, will be interested in ensuring those exemptions are maintained
Defence	Currently exempt from levy, will be interested in ensuring the exemption is maintained
Land information	Holds information on land use
ACC	Could provide information on a model similar to the ACC levy
Earthquake Commission	Could provide advice on the collection of the Earthquake Commission Levy
Transport	Could provide advice on collection through vehicle registrations
Education, Health, Corrections	Own significant property portfolios

Recommendations

12. We recommend that you:

    a) **agree** to undertake a first principles review of FENZ's funding model; and **Yes/No**

    b) **review** and **send** the attached letter to Hon Grant Robertson, Minister of Finance.

Raj Krishnan
General Manager Policy

Hon Tracey Martin
Minister of Internal Affairs

_____/_____/________

Appendix A: Draft letter to Hon Grant Robertson, Minister of Finance

Hon Grant Robertson
Minister of Finance
Parliament Buildings

Dear Grant

I am writing to inform you of my intention to seek Cabinet agreement to undertake a first principles review of the Fire and Emergency New Zealand (FENZ) funding model.

FENZ was formed on 1 July 2017. The transition programme is progressing well and New Zealanders are beginning to see the benefits of a modern, unified fire and emergency service.

FENZ is funded by a levy on property insurance. This is largely a continuation of historical arrangements, although the levy calculation in the FENZ Act has been adjusted to be more equitable and many other elements of the regime have been updated and modernised.

The new levy system has not yet come into force. Currently, a transitional regime applies, which continues the levy regime from the previous legislation, with an increased levy rate to fund the transition to a unified organisation. The new model is planned to come into effect on 1 July 2020.

However, in considering the proposed changes to FENZ's funding arrangements, I have come to the view that any insurance-based system will have inherent flaws which cannot be overlooked.

Most obviously, property owners who do not insure still benefit from FENZ's services, 'freeriding' on those who do insure. Further, charging a levy on insurance contracts increases the cost of insurance, which may incentivise companies and households to under-insure. Levy systems are complex to administer for insurers, and are prone to uncertainty as commercial insurance arrangements become increasingly complex.

While the proposed new levy regime should be more equitable than the system that came before it, when it takes effect some businesses will face substantial increases which could affect their viability. Business owners have told me that the increases under the new levy regime will result in staff layoffs or reduced insurance cover.

The reforms have made great progress in ensuring our fire and emergency services are fit for the future. We now have a much clearer understanding of the costs involved in running the new national organisation – and its new structure and functions – than the government had in 2016 when the decision was made to continue with an insurance-based model.

I consider the time is now right to take a first principles look at FENZ's funding system. While no system is perfect, I think we can do better than an insurance-based levy.

I expect the review of FENZ's funding model will take up to two years, including public consultation and Cabinet policy approval. Legislative change and implementation would follow, with the new model taking effect in 2022 or 2023. The transitional regime that currently funds FENZ would continue until the new model takes effect.

Decisions about funding FENZ will have significant financial implications for households, businesses, and the public sector. I would like to speak to you about the review before seeking formal agreement to proceed from our Cabinet colleagues early next year.

Yours sincerely

Hon Tracey Martin
Minister of Internal Affairs

Internal Affairs briefing

Hon Tracey Martin
Minister of Internal Affairs

Title: **FENZ Funding Review and local government**

Date: 10 July 2019

Key issues
The Fire and Emergency New Zealand (FENZ) Funding Review (review) will canvas options that may involve changes to local authority systems and responsibilities. Local government will therefore have a keen interest in the review.

Action sought	Timeframe
Forward this briefing to the Minister of Local Government	At your convenience

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1st contact
Ruth Fischer-Smith	Policy Manager	04 494 0537	s9(2)(a) [redacted]	✓
Rowan Burns	Senior Policy Analyst	04 495 7221		

Return to	Rowan Burns, 45 Pipitea Street
Cohesion reference	64AZR7SAWA7N-8-1460
Ministerial database reference	IA201900672

Purpose

1. This briefing provides you with information on the interface between the Fire and Emergency New Zealand (FENZ) Funding Review (the review) and local government. This briefing is provided for your information, and for you to forward to the Minister of Local Government.

Background

Local government history in fire services

2. Prior to the 2017 reforms, fire services in New Zealand were split between the New Zealand Fire Service Commission, the National Rural Fire Authority, twelve enlarged rural fire districts and 26 territorial rural fire authorities. Rural fire authorities were run by local government, were responsible for vegetation fire, and received funding from rates (as well as some funding from the national fire service).

3. The 2017 reforms reorganised these organisations into one fire service: Fire and Emergency New Zealand. FENZ acquired responsibility for funding and providing rural fire services – previously the responsibility of local authorities. It also acquired the assets of the rural fire authorities at no cost.

Comment

Local government will have a keen interest in the FENZ Funding Review

4. The purpose of the review is to identify whether more suitable options exist for funding FENZ than the current levy on property insurance.

5. The review will proceed in two phases. Phase one (now to February 2020) will consist of public consultation on high level options for funding FENZ. This will include Cabinet approval and public release of a discussion document. Phase two (March 2020 onwards) will follow the consultation on high level options, and will consist of detailed policy work and targeted engagement to support Cabinet decisions on a preferred option.

6. The high level options to be canvassed in phase one include funding FENZ from levies based on property value. This is the same basis on which local authority rates are determined. Local authorities own this rating information.

7. Within the property value liability option there are several implementation sub-options. These include local authorities collecting levy on behalf of FENZ (either at the district or regional level), or local authority rating data being used by an independent billing and collection agency which has a direct customer relationship with liable parties.

8. For these reasons, and due to local government's historical involvement in rural fire, local authorities will have a keen interest in the review.

The review is considering several policy matters relating to local government data

9. As well as the logistics of how to determine liability for FENZ levy, and how to collect FENZ levy, the following policy matters are also relevant to decision making about this issue:

   - the extent to which property value is or is not a better indicator of the potential for a property to call on FENZ's services than insured value;
   - what other information in the rating information database might be useful in helping to determine potential call on, and therefore potential liability for, FENZ's services. For example, information such as the location of the property (in relation to a fire station, or generally urban or rural), and the size and construction of the property; and
   - the alignment between this work and other work looking at the local authority rating system, e.g. rating Māori land work.

Land valuation data is at the heart of the local authority centric-options

10. Land Information New Zealand (LINZ) LINZ, through the Valuer-General, sets the standards for how valuations are undertaken. Councils undertake ratings valuations of all properties within their areas at least every three years (generally this service is contracted out). The Valuer-General audits the valuers who carry out these rating valuations, and their work, to ensure that they meet national standards.

11. While the Valuer-General sets the standards for what information must be collected, councils own the information in their rating databases. They use this information for setting rates, and may also sell the information to third parties (such as companies which offer property information services to businesses and the public).

12. There is a significant amount of land that is non-rateable, or only partially rateable, for the purposes of the Local Government (Rating) Act 2002.[1] While much of this land is not rated, valuation data is still held for most land.

13. The challenges of using local authority rating database information for FENZ levy purposes will be:

   - local authorities own the information in their rating databases;
   - the purpose of valuation data is to set rates locally – there may therefore be issues with national consistency;
   - rating information is renewed every three years, but the renewals occur at different times around the country (approximately one-third of the country is revalued every year). Some form of equalisation may be required;
   - for land that is valued but not currently rated, the suitability of using those valuations to now determine a liability; and
   - using valuation data for this purpose may increase the incidence of objections to valuations.

[1] Schedule 1, Local Government (Rating) Act 2002.

Engagement and related work

You met with opposition members to discuss the review

14. On 23 May 2019 you met with Hon Jacqui Dean MP, Kanwaljit Singh Bakshi MP and Lawrence Yule MP to discuss the local government elements of the review.

15. At that meeting you discussed:
    - local government interest in the review, and the role that local government historically played in fire;
    - pressures on the cost of living through rates, and the need to be conscious of this when considering whether or not to put further items on rates;
    - the role that insurance plays in assessing risk;
    - the differences in land/capital value in different parts of the country.

Engagement so far with local government peak bodies

16. We have met with officers from Local Government New Zealand (LGNZ) and the Society of Local Government Managers (SOLGM) to discuss the practicalities of the local government interface on the review.

17. LGNZ and SOLGM officers are open to working with us during the review. This includes testing policy thinking during the creation of the discussion document, and helping facilitate workshops during the public consultation phase. LGNZ officers have reiterated that, if local government were asked to collect FENZ levy, they would likely wish to be reimbursed for the costs of doing so.

Engagement through the public consultation phase

18. Once the public consultation document has been released in October 2019 we intend to hold a small series of workshops around the country to seek public views on the proposals. Local government representatives will have the opportunity to attend these workshops. We are also discussing with LGNZ attendance at LGNZ zone meetings.

The Productivity Commission inquiry into local government funding and financing is not directly relevant to the review

19. The Government has asked the Productivity Commission to undertake an inquiry into local government funding and financing and, where shortcomings in the current system are identified, to examine options and approaches for improving the system.

20. The Productivity Commission released an issues paper on 6 November 2018. It issued a draft report on 4 July 2019 and is due to issue a final report on 30 November 2019.

21. This inquiry is about the cost of services provided by local government and how they are paid for. It is examining the adequacy and efficiency of the current local government funding and financing framework.

22. The inquiry is concerned with how local government pays for the functions that it delivers. In contrast, the FENZ review is not concerned with how local government pays for the functions that it delivers; the review is concerned with the data that local government holds on property values, and with the potential role that local government might play in collecting FENZ levy.

Recommendations

23. We recommend that you:

a) **note** that local government will have a keen interest in the Fire and Emergency New Zealand Funding Review; and

b) **forward** this briefing to the Minister of Local Government. **Yes/No**

Benedict Goodchild
Acting Policy Manager

Hon Tracey Martin
Minister of Internal Affairs
______/______/______

Internal Affairs briefing

Hon Tracey Martin
Minister of Internal Affairs

Title: **Feedback on FENZ funding review draft discussion document**

Date: 9 August 2019

Key issues
Consultation on FENZ funding options is scheduled for late 2019 to early 2020. You are due to report back to GOV with a discussion document on 17 October 2019 to begin public consultation. This briefing provides a draft discussion document for your initial feedback.

Action sought	Timeframe
Provide feedback on the attached discussion document	At your earliest convenience

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1st contact
Ruth Fischer-Smith	Policy Manager	04 494 0537	s9(2)(a) [redacted]	✓
Joe Harbridge	Senior Policy Analyst	04 816 4053		

Return to	Joe Harbridge, 45 Pipitea Street
Cohesion reference	64AZR7SAWA7N-1155024947-16
Ministerial database reference	IA201900761

Purpose

1. Attached as **Appendix A** is the draft discussion document for the Fire and Emergency New Zealand (FENZ) funding review. We seek your initial feedback on the document at your earliest convenience.

2. We will continue to refine the discussion document between now and providing you with a final document for Cabinet consideration in October 2019.

Background

You announced a review into FENZ funding in March 2019

3. On 15 March 2019, you announced a review into the funding model for FENZ. Since then, we have been developing a discussion document for you to take back to Cabinet.

4. The discussion document seeks views on:

   - ways to fund FENZ;
   - the value New Zealanders receive from FENZ; and
   - how best to share FENZ's costs equitably between those who benefit.

5. The document first sets out the background around the review and why the funding model is being reviewed. It then sets out a high-level view of what services FENZ provides for New Zealanders. Finally, it presents possible funding approaches for businesses and households, motorists, and the Crown.

FENZ and the Treasury are broadly comfortable with the draft

6. We have been working closely with FENZ to draft the discussion document. We have agreed to share a copy of the draft with FENZ's Board at the same time as you. We have also been working closely with the Treasury and other government agencies with an interest in the funding review in advance of formal interagency consultation.

Key areas where we are seeking your feedback on the discussion document

Have we captured your views on why the funding model is being reviewed?

7. Chapter Two of the discussion document sets out why FENZ's funding model is being reviewed (see pages 8 and 9). It covers some of the inherent inequities of a market-based insurance levy model, and affordability concerns in shifting to the new model in the FENZ Act 2017. We are keen for your feedback on this section and if there is anything else you would like included here (or in the Ministerial foreword).

Are you comfortable with Crown funding options in the discussion document?

8. The document outlines the potential for some change to the Crown's funding contribution as part of a predominantly levy-funded model. We want to ensure you are comfortable with this approach.

9. We have set out some other potential sources of funding for FENZ in Chapter Four (see page 14 and 15). In the options for motorists' section (see page 14), we have included transferring funding from the National Land Transport Fund as an option. We included this option following discussions with the Ministry of Transport and New Zealand Transport Agency. On page 15, we also set out other potential sources of funding including an annual Crown contribution or a contribution or guarantee for large-scale events.

10. The discussion document does not commit the Government to any option. However, if the Government is intending to rule out changes to the Crown's contribution as part of the review, it would be better to make this position clear in the discussion document. This could be a matter for you to discuss during Ministerial consultation, or at Cabinet.

Are you comfortable with local government funding options in the discussion document?

11. The possibility of a local authority contribution is also raised in the draft discussion document (see page 15). This suggestion is likely to be contentious with local government and we know it is not your preferred option. We think it is important to raise the possibility of a local authority contribution (e.g. local authorities collecting a levy on FENZ's behalf or contributing the relevant data to a central collection agency) in the document to enable good engagement on any associated challenges and issues.

12. Again, the discussion document does not commit the Government to any option and now is a good time to be clear if any options are being ruled out.

Designing the consultation approach is our next step

13. We have begun consultation planning, identifying key stakeholder groups and our approach to getting their feedback. We will provide you with an overview of our consultation plan alongside the next version of the discussion document and draft Cabinet paper. The consultation plan will set out opportunities for you to engage directly with key stakeholders during the process.

Support for the discussion document

14. The Department will support the discussion document in several ways:
    - easy to read web content (for example, a quick read document and FAQs);
    - outreach through social media and an online survey (TBC);
    - targeted meetings with Treaty Partners and key stakeholders including local government, insurers, property investors, foresters, farmers, and firefighters; and
    - several public meetings throughout New Zealand.

Challenges and risks for phase two of the review

15. The discussion document is focused on high-level options for funding FENZ. It does not go into detail on what the total cost for providing FENZ funding is likely to be, or what the individual costs will look like for businesses and households. This is because these costs will only be known once detailed work on the new funding model is complete.

16. Once a preferred approach is chosen, there will need to be further public input on the details of that approach and the level of funding required from individual households and businesses. FENZ would traditionally be responsible for consulting on and recommending levy amounts. We will work with FENZ and its Board to confirm an approach for your approval as part of the review.

17. Based on a preliminary financial forecast, there may also be a need to address a funding gap for FENZ before 2024 while the review is in its final stages. There are options available to address a short-term funding gap if necessary. We will provide you with advice once we have a better understanding of FENZ's projected funding and costs for this period.

Next steps for the discussion document

18. You have been invited to report back to Cabinet on 17 October 2019 to "seek agreement to the release of a discussion document seeking feedback on potential funding models" (GOV-19-MIN-0006 refers).

19. The proposed timeline is set out below:

Date	Milestone
Wed 14 August (To be confirmed)	Provide your feedback to officials
Mon 19 August to Fri 6 September	Interagency consultation on discussion document and Cabinet paper
Mon 16 September	Cabinet paper and discussion document provided to your office
Mon 16 September to Fri 4 October	Ministerial and cross-party consultation
Mon 7 October	Final Cabinet paper and discussion document for your approval
Thurs 10 October	Cabinet paper and discussion document lodged
Thurs 17 October	Cabinet paper and discussion document at GOV
Mon 21 October	Paper/discussion document at Cabinet
Late October (date TBC)	Consultation begins

Recommendations

20. We recommend that you:

a) **provide feedback** on the attached discussion document at your earliest convenience. **Yes/No**

Gina Smith
Policy Director, Policy Group

Hon Tracey Martin
Minister of Internal Affairs

____/____/____

Appendix A: Discussion document

Please see separate document attached.

Appendix withheld under s18(d)

Internal Affairs briefing

Hon Tracey Martin
Minister of Internal Affairs

Title: **Fire and Emergency New Zealand discussion document Cabinet paper**
Date: 13 September 2019

Key issues
You are due to report back to GOV on the Fire and Emergency New Zealand funding review on 17 October 2019, following Ministerial consultation. This briefing attaches a draft Cabinet paper and discussion document for your consideration and for Ministerial consultation. Based on agency feedback, the Ministers of Finance, Housing, Education, Local Government, Transport, and Defence may be especially interested in this paper. Due to your possible overseas travel, you may choose to authorise your office to lodge the papers for Cabinet on your behalf, subject to any minor changes that may result from Ministerial consultation.

Action sought	Timeframe
Agree to consult with your Ministerial and cross-party colleagues, following any changes you consider appropriate	18 September to 1 October
Authorise your office to lodge the Cabinet paper and discussion document subject to any minor changes that might occur as a result of Ministerial and cross-party consultation	By 10 October
Agree to proactively release the Cabinet paper *Fire and Emergency New Zealand funding review: Release of Discussion Document* alongside the release of the public discussion document	24 October

Contact for telephone discussions (if required)

Name	Position	Direct phone line	After hours phone	Suggested 1st contact
Gina Smith	Policy Director	021 593 973	s9(2)(a) [redacted]	✓
Joe Harbridge	Senior Policy Analyst	04 816 4053		

Return to	Joe Harbridge, Level 9, 45 Pipitea Street
Cohesion reference	64AZR7SAWA7N-1155024947-123
Ministerial database reference	IA201900909

Purpose

1. This briefing provides you with a draft Cabinet paper (**Appendix B**) and discussion document (**Appendix C**) on the Fire and Emergency New Zealand (Fire and Emergency NZ) funding review for Ministerial and cross-party consultation. Suggested talking points to support you during Ministerial and cross-party consultation are provided in **Appendix A**.

2. You have been invited to report back to the Cabinet Government Administration and Expenditure Review Committee (GOV) on 17 October 2019 to seek agreement to the release of a discussion document seeking feedback on potential funding models.

3. Due to your upcoming international travel, we have included a recommendation in this briefing for you to authorise your office to lodge the Cabinet paper on your behalf, subject to any minor changes that might occur as a result of Ministerial and cross-party consultation. If you agree to this recommendation, your office will determine what changes (if any) are made to the discussion document and Cabinet paper, as a result of Ministerial and cross-party consultation, and whether you need to approve those changes during your travels.

Background

You announced a review into Fire and Emergency NZ's funding in March 2019

4. On 15 March 2019, you announced a review into the funding model for Fire and Emergency NZ. The purpose of the review is to identify whether more suitable options exist for funding Fire and Emergency NZ than the current levy on property insurance.

5. Cabinet has previously agreed that the review will not consider aspects of Fire and Emergency NZ operations or the Fire and Emergency New Zealand Act 2017 (the Act) beyond those related to its funding. Funding arrangements for other emergency services like ambulance services are also out of scope.

6. The current transitional levy arrangements under the Act will continue until 2024. This ensures that Fire and Emergency NZ will continue to be fully funded while the review is carried out.

We discussed the consultation approach with you on 12 September 2019

7. We recently discussed the consultation approach and your preferences around your involvement during the consultation phase (IA201900891 refers). We will continue to work with your office on your involvement.

8. We will begin scheduling consultation meetings shortly. The meetings are scheduled mostly in November to avoid consultation during the summer holiday period.

Comment

We have finalised a discussion document for you to take back to Cabinet for approval to consult

9. Since March 2019, we have been working with Fire and Emergency NZ and other agencies on the review. We have researched models in other jurisdictions and considered how they might be adapted in a New Zealand context. We have also had some initial engagement with key stakeholders like Local Government New Zealand and the Property Council.

10. Following this work, we have been developing a Cabinet paper (attached as **Appendix B**) and discussion document (attached as **Appendix C)** for you to take back to GOV.

11. The discussion document is intentionally set at a high level. It does not set out a preferred approach, although it does contain some initial analysis on the possible ways to fund Fire and Emergency NZ. It seeks views on these options as well as possible issues and challenges in how they might be implemented. We intend to support the discussion document with collateral material such as a 'quick read' version, and material targeted to stakeholder groups (e.g. local government).

We have made some changes to the discussion document since you last saw it

12. We have received a range of feedback on the discussion document from interagency consultation, the Fire and Emergency NZ Board, and the Department's regulatory impact analysis panel. Compared with the version we shared with you on 9 August 2019 (IA201900761 refers), the key changes are:

    - Property value-based is now described as property-based – this change reflects feedback that we may want to use a variety of property features from the valuations data like building size or height, rather than just the value. We have also made some minor adjustments to the ticks and crosses for options based on feedback.
    - Crown guarantee or contribution for large-scale events – we have removed this as a potential source of funding from the document, as it is not relevant to the model chosen and is more an operational issue to consider with Fire and Emergency NZ and Treasury. This does not impact our work looking at land remediation.
    - Fire and Emergency NZ charging for some services – we have adjusted this based on feedback from Fire and Emergency NZ to not refer to fire permits in the discussion document (as a fee could discourage their use). We are also now seeking feedback on charging for nuisance issues like repeated false call-outs.

Risks and mitigation

13. The Cabinet paper covers several potential risks and mitigations. We have incorporated these into the suggested talking points in **Appendix A**.

14. The key risks are:

    14.1 The consultation is seen as introducing a new tax;

    14.2 The impact of the change in funding approach is unclear;

    14.3 The levy was only recently reviewed in 2017;

    14.4 Concerns are raised about funding for other emergency services (e.g. St John); and

    14.5 Calls may be made to increase the Crown contribution from $10m annually.

Next steps

15. You have been invited to report back to Cabinet on 17 October 2019 to "seek agreement to the release of a discussion document seeking feedback on potential funding models" (GOV-19-MIN-0006 refers).

16. We have been advised by your office that you may be travelling overseas in early October. At the request of your office, we have included a recommendation in this briefing for you to authorise your office to lodge the Cabinet paper on your behalf, subject to any minor changes that might occur as a result of Ministerial and cross-party consultation.

17. If you agree to this recommendation, it will be up to your office to determine what changes (if any) are made to the discussion document and Cabinet paper as a result of Ministerial and cross-party consultation and whether you need to approve those changes during your travels.

18. Our proposed timeline has been adjusted since you last saw it to reflect your possible international travel between 4 October 2019 and 15 October 2019. The new timeline is below:

Date (2019)	Milestone
Mon 16 September to Tue 1 October	Ministerial and cross-party consultation
Mon 2 October	Final Cabinet paper and discussion document for your approval
Thurs 10 October	Cabinet paper and discussion document lodged
Sat 12 October	Local authority elections
Thurs 17 October	Cabinet paper and discussion document at GOV
Mon 21 October	Paper/discussion document at Cabinet
Thurs 24 October	Consultation period begins

Recommendations

19. We recommend that you:

a)	**Agree** to consult your Ministerial and cross-party colleagues on the attached Cabinet paper and discussion document, subject to any changes you wish to make, by 1 October 2019;	**Yes/No**
b)	**Authorise** your office to lodge the attached Cabinet paper and discussion document, subject to any minor changes that might occur as a result of Ministerial and cross-party consultation;	**Yes/No**
c)	**Agree** to proactively release the Cabinet paper *Fire and Emergency New Zealand funding review: Release of Discussion Document* in conjunction with the release of the public discussion document; and	**Yes/No**
d)	**Note** consultation scheduling will begin immediately after your media statement about the consultation.	

Gina Smith
Director Policy

Hon Tracey Martin
Minister of Internal Affairs

_____/_____/________

Appendix A: Suggested talking points for Ministerial consultation

- I intend to seek Cabinet's approval to release the discussion document *Fire and Emergency New Zealand Funding Review* for public consultation. I propose consultation takes place from 24 October 2019 to 5 February 2020.

Fire and Emergency NZ is funded through a levy on property insurance that was modernised in 2017

- Fire and Emergency NZ is funded through a levy on property insurance that was modernised in 2017. This modernised levy has not yet come into force and would have impacted certain property holders. For example, some central government agencies would have likely seen levy increases under the proposed new model.
- The only options considered at this time were variations on the insurance-based model. There are limitations with any insurance-based model, in particular, those who do not insure still benefit from Fire and Emergency NZ, "freeriding" on those who do have insurance.

Cabinet agreed to initiate a wider review of Fire and Emergency NZ's funding model in March 2019

- Cabinet agreed to initiate a review of Fire and Emergency NZ's funding on 11 March 2019 to identify whether more suitable funding options exist.
- Cabinet has previously agreed that the review will not consider aspects of Fire and Emergency NZ operations or the Act beyond those related to its funding.
- Funding arrangements for non-Fire and Emergency NZ emergency services like ambulance services are also out of scope.

The review will be split into two phases

- Phase one of the review (March 2019 – February 2020) looks at high-level ways to fund Fire and Emergency NZ and seeks views from the public and stakeholders.
- Phase two of the review (March 2020 onwards) involves the Government analysing, selecting, and consulting on a preferred funding model.

Contents of the discussion document

- The discussion document is intentionally set at a high level. It does not set out a preferred approach, although it does contain some initial analysis on the possible ways to fund Fire and Emergency NZ. It seeks views on these options as well as possible issues and challenges in how they might be implemented.
- I am mindful that while there are inherent limitations with an insurance-based model, all models will have advantages and challenges or limitations. I am optimistic that while no system is perfect, I think we can do better than the current insurance-based levy.
- To reflect the possibility of a mixed option approach, which is common in other jurisdictions, options have been split out for businesses and households, and motorists. The discussion document also includes some options around other potential sources of funding including Crown or local government funding.

Risks and mitigations

- Several risks and potential mitigations have been identified:
  - **The consultation is seen as introducing a new tax** – the review is looking at whether there are better ways meet the existing funding needs of Fire and Emergency NZ.
  - **The impact of the change in funding approach is unclear** – the Government is comparing high-level options to make an in-principle decision on the preferred approach. More detailed consultation will occur before any change is made to the amount that levy payers are currently paying.
  - **The levy was recently reviewed in 2017 when Fire and Emergency NZ was amalgamated** – the proposed changes to the levy in the Act were made following a review that only considered insurance-based options. This review is looking at a wider range of options.
  - **Concerns may be raised for funding other emergency services (e.g. St John)** – Fire and Emergency NZ is a Crown entity that has been traditionally funded through a levy. Other emergency services have their own funding sources which are outside of the scope of the review.
  - **Calls may be made to increase the Crown contribution from $10m annually** – the government typically considers its public good contribution every time the Fire and Emergency NZ Board reviews the levy rate. This will be something to consider in the second phase of the review once a preferred model is set and a new levy rate is being developed.

Financial Implications

- Any decision on changes to the funding model could have financial implications for households, businesses, and the public sector. The financial implications of any changes are likely to be greatest for the commercial/non-residential sector. Where the Crown owns property, decisions may also affect the Crown.
- Understanding and addressing affordability concerns is important to me and was a key factor in initiating this review. These issues will need to be carefully considered in the setting of the next levy, regardless of which model is preferred.

Next steps

- I propose to commence consultation by releasing the discussion document on Thursday 24 October 2019. Consultation will run from 24 October 2019 to 5 February 2020.
- I will then report back later in 2020 seeking in principle decisions on the preferred funding model for Fire and Emergency NZ.

Appendix B: Cabinet paper

See separate document

Appendix C: Discussion document

See separate document

Appendix C withheld under s18(d)

Date: 10 January 2019

To: Mayors, Chairs and Chief Executives

CC: Jason Krupp, Deputy Chief Executive Advocacy, LGNZ; Dave Cull, President, LGNZ

From: Mike Reid, Principal Policy Advisor, LGNZ

Subject: Initial response to the FENZ Funding Review

Fire and Emergency New Zealand (FENZ) is undertaking a consultation process to seek initial views from the public on preferred options for how fire and emergency services should be funded in the future. The consultation document can be downloaded from https://www.dia.govt.nz/firefundingreview#dd. The deadline for submissions is February 5, 2020.

The review is the first phase of a two phase process expected to be completed by 2024 and the implementation of a new funding model. The phases are:

- Phase One (March 2019 – February 2020) involves the publication of this consultation document and seeks feedback on high-level ways to fund Fire and Emergency services, without considering matters of detail or implementation; and
- Phase Two (March 2020 onwards) will involve consultation on the preferred funding model (as selected by the Government) and will seek feedback on the levy rate and how it should be applied (matters of detail) before any changes to the levy occur.

The creation of FENZ has highlighted the historic shortcomings with the current insurance-based funding model for fire and emergency services, particularly its lack of universality and the fact that some sectors, which benefit directly from the service, such as motorists, do not contribute in proportion to the cost. The Government's challenge is to find a funding model that allocates cost in accordance with beneficiary in a way that free-riding is minimalised.

Two significant principles guide LGNZ's response to the consultation paper:

- **Beneficiary pays:** that funding should be linked as strongly as practicable with the sectors that benefit from the services provided by Fire and Emergency New Zealand; and
- **Accountability:** that it is clear to those who pay fire service levies that they are administered directly by FENZ itself. Using proxy agencies to collect the levy on its behalf undermines that accountability and reduces the level of scrutiny that public organisations need to build and maintain community trust.

The direct beneficiaries of FENZ's services

As the consultation document makes clear, a broad range of sectors directly benefit from the activities provided by FENZ, let alone the benefits that accrue to New Zealand as a whole.

As the document notes, in the 2018/2019 year, FENZ attended 79,921 incidents, the major ones involving:

- Medical emergencies;
- Structure (building) fires;
- Vegetation fires;
- Hazardous substances and emergencies; and
- Motor vehicle incidents.

In giving effect to the benefit principle, we would expect each of these sectors to contribute to the cost of fire and emergency services. In some cases, such as motorists and property owners, it is practical and efficient to apply a direct levy. In other cases, such as medical emergencies and hazardous substance emergencies, the contribution should come from taxpayers through the appropriate vote, such as Health and Environment. Further work is required on matters such as:

- Estimate the relative shares that property owners, road users, and other sectors should contribute based on the share of resources allocated to each.
- Establish a property data base for businesses and households, and a central collecting agency. The current valuation roll will be helpful but should be supplemented by additional information to assess specific use and risk.
- That groups of properties are weighted according to their specific risk profiles, and a mechanism to address affordability adopted.

Who should pay?

The consultation document outlines a number of options on which it seeks submitter's views as well as inviting submitters to put forward other options.

- **Businesses and households:** LGNZ's preference is for the proportion of FENZ's income to be drawn from the business and household sector to be based on property value and use. This would require FENZ to develop its own database of valuation and use. The existing valuation data held by councils will be helpful but not sufficient.
- **Motorists**: The consultation paper suggests two options involving levies charged on vehicle insurance of vehicle licensing. Of the two options, LGNZ's preference is for a charge to accompany annual vehicle licensing.
- **The Crown:** Fire and emergency services are not limited to structure fires and accidents. The consultation paper notes that 17 per cent of incidents attended involve medical emergencies as well as call-outs related to hazardous substances. Both are examples of a generic public benefit received from the work of the agency, and justify an annual contribution from taxpayers through the Government's annual budgetary process.

Collection mechanisms

Since the benefit of FENZ services is spread over a number of distinct sectors, there cannot be a single collection mechanism, as the ideal funding model will involve a number of levies. A levy paid when vehicles are registered meets the principle of universality and simplicity, as it could involve an annual transfer from NZTA. A benefit received from businesses and households should be funded through a levy administered directly by FENZ.

The consultation paper asks whether a property based levy could be collected by local authorities on behalf of FENZ. LGNZ would not support that option for the following reasons:

- It 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;
- Property taxes are not set on a consistent basis. Some councils set their rates on land value, others on capital or improved value. Many will employ a combination of both the unimproved and improved value while most employ a range of targeted rates, which are unlikely to be a relevant basis to set levies related to fire risk. In some cases, uniform charges make up a considerable share of a council's income. If a levy was collected by councils on the basis of each council's rating policies, the result would be inconsistent with the equity principle set out in the consultation document; and
- Local government's rating base is far from universal. Certain categories of property are non-rateable while others have mandatory rating discounts. In addition, councils may have their own policies for remitting rates under specific circumstances. Added to this, Crown land is non-rateable. Consequently, requiring council to collect a property levy would fail the test of universality and require complex arrangements to "fill the gaps".

A sustainable property levy that meets the principles set out in the discussion paper, will need to be specifically designed for that purpose, and to ensure appropriate public scrutiny and accountability, be levied directly by FENZ itself.

LGNZ will be submitting to the FENZ consultation document prior to the deadline on 5 February. Please forward any high level observations to Mike Reid at mike.reid@lgnz.co.nz by Tuesday 3 February.

Mike Reid
Principal Policy Advisor
Local Government New Zealand

Submission of the Society of Local Government Managers on the Fire and Emergency New Zealand Funding Review Consultation Document

The New Zealand Society of Local Government Managers (SOLGM) thanks the Department of Internal Affairs (the Department) for the opportunity to submit on the Fire and Emergency New Zealand Funding Review Consultation Document (the CD).

Who are We?

SOLGM is an incorporated society of approximately 840 members drawn from local government Chief Executives, senior managers, and council staff with significant policy or operational responsibilities.[1] We are an apolitical organisation. Our contribution lies in our wealth of knowledge of the local government sector and of the technical, practical and managerial implications of legislation.

Our vision is:

> *Professional local government management, leading staff and enabling communities to shape their future.*

The submission is in two parts. In the first part we consider the proposed change to the methodology for funding the fire service as a matter of principle. In part two we provide our first thoughts on the technical and practical issues that will need to be resolved.

Overall, we consider the proposal covers only a small part of a much bigger picture – and therefore that a more substantive review of the funding of Fire and Emergency New Zealand (FENZ) is warranted.

It is not clear to us why property owners (or to be more accurate the subset that are insured) are providing five dollars in every six of FENZ revenues. We submit that a

[1] As at 31 October 2019.

proper review of FENZ funding would be asking further questions such as the future of an insurance-based levy on motor vehicles and the case for a larger contribution from the Crown.

Central government currently funds most FENZ from a hypothecated tax on insurance policies (be property or motor vehicles). The proposal appears to change the basis of tax to a tax on property and a tax on vehicle insurance. Two of the fundamental principles of tax are

- ***beneficiary pays:*** that funding should be linked as strongly as practicable with the sectors that benefit from the services provided by Fire and Emergency New Zealand; and
- ***accountability:*** that those paying tax are able to hold the agency receiving the tax accountable for the use of the revenues.

We suggest that the proposal offends against both these principles.

The Proposal

There is little detail on how the proposal will operate in practice

The CD proposes a significant shift in the methodology for funding Fire and Emergency New Zealand (FENZ). In essence the paper proposes a replacement of the present levy on insurance policies with a hypothecated tax on property values administered either by local authorities or using the information local authorities hold to administer the rating system. Beyond a few speculative possibilities, there is limited detail on how the proposal would operate.

A more fundamental review of FENZ Funding is needed to establish the correct balance of taxing property, vehicles and others

We were interested in the information presented in the infographic entitled *A Snapshot of Fire and Emergency New Zealand* (page of 11 of the CD).[2] It appears that levies on insurance policies account for some 86 percent of FENZ's total revenue. Yet fire related incidents appear to account for less than 12 percent of the incidents FENZ attended in that year (based on what's in the infographic).

By comparison, it appears that medical emergencies are the most frequently attended incident (around 17 percent). We suspect some element of the

[2] We were particularly interested in the information categorising the different types of incident that FENZ responded to in the 2018/9 year. The five categories presented in the infographic collectively account for little more than half of the total incidents that FENZ attended in 2018/9.

government contribution is a partial recognition of this aspect of FENZ operations, but note that this is some 1.3 percent of FENZ's total revenues. Similarly. the motor vehicle levy accounts for some 8.3 percent of FENZ revenues, yet motor vehicle incidents accounted for some 12.5 percent of the incidents attended.

Of course, mere numbers of incidents attended does not necessarily correlate to cost. A major fire incident (such as the Port Hills or SkyCity) may take days to resolve, where a medical emergency may take minutes.

What these numbers suggest is that the 'benefits' of FENZ services are enjoyed by a far wider group than property owners. There is some evidence to suggest that property owners may be bearing at least some cost more appropriately borne by the motorist, by those agents dealing in/with hazardous substances, and by society in general. There is a case for further considering whether all the activities that generate incidents are meeting the costs

The proposal undermines the accountability that FENZ, and the government have to those paying the tax

LGNZ's submission notes that it must be clear to those who pay fire service levies that they are administered directly by FENZ itself. Using proxy agencies to collect the levy on its behalf undermines that accountability and reduces the level of scrutiny that public organisations need to build and maintain community trust. We can only agree.

The points made about levies on the value of property insurance contracts apply equally to the motor vehicle levy

The CD correctly notes that reliance on property insurance model incentivises free-riding i.e. those without insurance escape the levy, yet still receive the same degree of protection and other services from FENZ.

Anything that increases the cost of insurance may, at the margin, discourage some property and vehicle owners from insuring (especially in an environment where premiums are rising rapidly). The levy is not insignificant, at the current rates specified in regulations, an owner of the median values residential property ($700,000) insured for that amount would pay some $740).

These are both valid points, but apply equally to the motor vehicle levy. This too is levied on the value of motor vehicle insurance policies, though we accept that the present rate $8.45 per vehicle does not seem prohibitively expensive. We ask why options for reform of the motor vehicle levy are not under consideration. For example, might surcharges be added to vehicle registration, to fuel excise or to road-user charges for FENZ purposes.

Recommendation

1. That the review of FENZ Funding be broadened in scope to include:
a) a review of property based levies
b) whether a levy on motor vehicle insurance is the appropriate means for recovering funding for vehicle related incidents
c) whether and how economic agents whose businesses involve dealings with hazardous substances are making any contribution (and if not then mechanisms for such a contribution) and
d) a contribution from the Crown in recognition of the work FENZ undertakes to support medical and risk reduction outcomes

Central government should not presume that any collection or information requirements placed on the sector will be provided gratis

The CD suggests that local authorities would either act as the collection agents for the levy (interesting given comments elsewhere about the complexities that insurance companies face collecting the current levy) or "providing the data" (as part of a local government contribution to FENZ).

In fact, local authorities are property owners. Their properties are valued and insured. Local authority owned properties must be placed on valuation rolls – and are rated unless the local authority remits rates. The point is that local authorities make a levy under the current funding system, and would do so under the proposals.

Good tax policy suggests that, all things being equal, the agency who sets the tax and receives the proceeds, should also administer the tax. The primary exception to these principles are where the transactions costs of independent administration are prohibitive. We concur (reluctantly) that a separate collection mechanism for a tax on this scale may not make economic sense.

It is for this reason, that there are six regional councils that rely on their constituent territorial authorities to collect their rates. But this collection is not done gratis. Section 43 of the Rating Valuations Act 1998 provides a formula for apportioning the cost of preparing the valuation roll where the regional and territorial authority cannot agree.[3] Both parties enter into an agreement in regards the other costs associated with collection (for example, invoicing and enforcement) and on the day to day administration of rates.

Exempting FENZ from meeting the costs it imposes on the collection agency would be bad public policy. A contribution ensures that FENZ designs its levy requirements in such a way that its cognisant on the administrative and compliance demands it places on others.

It's not clear whether and how the Government intends to provide local government with any ability to influence FENZ governance and direction-setting in return for this contribution. Nor is it clear how the Government intends that FENZ demonstrates its accountability should local government be required to collect the levy.

Recommendations

2. **That central government be required to make a contribution to costs of any local authority administration of the levy.**

3. **That the Fire and Emergency NZ Act be amended to provide local government with the ability to nominate one or more representatives to the Board of FENZ.**

Technical and Practical Issues

Valuation information may not yield the answers that the Government seeks …

The CD and our discussions with officials highlighted that the optimum funding system would be cognisant of the level of risk in each individual property. Reliance on property information will give only a partial correlation to levels of risk. The capital value of a property does bear some relationship to the intensity of use of a property – broadly speaking the higher the intensity of use, the higher the capital value. Beyond that valuations alone have a weak correlation to risk at best.

Our discussions with officials focussed on the potential to identify property use that's deemed to be high risk. Rating valuations must be undertaken in accordance with the Rating Valuations Rules – which do specify a set of codes for different types of

[3] Effectively the cost of preparing the valuation roll is shared in proportion to the rates revenue each of the regional council and the territorial authority raise.

property use that must be shown on the valuation roll. These are a two-digit code – the first is a primary use code which can take one of the values in Table One below.

Table One: Valuation Roll – Primary Use Codes

Code	Explanation
0	Multi-use at the primary level
1	Rural industry
2	Lifestyle
3	Transport
4	Community services
5	Recreational
6	Utility services
7	Industrial
8	Commercial
9	Residential

Having then arrived at a primary use code, a secondary code then provides further detail. To take an example Table Two shows the secondary use codes for properties where the primary use has been identified as industrial. This is the lowest level of aggregation of use data. Industries that might be considering higher risk are aggregated with others that might be considered lower risk. For example, at the secondary level a high risk industry (chemicals) is aggregated in with others that may not bear as high a level of risk.

Table Two: Secondary Use Codes for Properties with an Industrial Primary Classification

7	**Industrial**	
	Multi-use within industrial	0
	Food, drink, and tobacco	1
	Textiles, leather, and fur	2
	Timber products and furniture	3
	Building materials other than timber	4
	Engineering, metalworking, appliances, and machinery	5
	Chemicals, plastics, rubber, and paper	6
	Other industries, including storage	7
	Depots and yards	8
	Vaçant	9

In short, relying on the property system will largely rule out incorporating significant elements of risk-based charging, and at anything other than a high level of aggregation of land-use.

FENZ will need to play a role in administering any charges collected through the rating system

This submission has previously noted that there are six regional councils where rates are collected by the constituent territorial authorities.[4] These arrangements do not absolve regional councils of all responsibility for administration of their rates. In particularly managing ratepayer queries or challenges as to the regional council aspects of the rates e.g. why this regional council rate is set in that way, whether the rating unit is liable for this or that regional rate etc.

That is to say that devolving responsibility for collection of any FENZ levy, doesn't absolve FENZ of accountability to the public for those rates. FENZ will need to ensure it is resourced to manage queries about its levies and resourced to contribute its share towards the cost of administering the charge. For example, in local authorities where there are no use-based differentials, a FENZ charge that is based on use might incentivise additional objections to information on the rating database. In those cases, a contribution from FENZ would be equitable.

[4] As of time of writing these are: Northland, Bay of Plenty, Taranaki, Wellington, Canterbury, and West Coast.

There are a host of collection and enforcement issues

The proposal asks respondents for an 'in principle' endorsement – it has therefore said little about the collection and enforcement processes for the levy. To take some examples:

- what penalties would be applied for non-payment or late payment
- is there any intent that the FENZ levy would have precedence over other charges collected through the rating systems e.g. if a ratepayer returns only a partial payment in what order are the charges deemed to be paid
- who makes the decision to take enforcement action to recover any unpaid rates/levies – the territorial authority, FENZ or both together etc
- some 21 categories of property are exempt from paying rates other than for the provision of water, sewage disposal and refuse collection (where the property is serviced).[5] These properties all benefit from FENZ services (FENZ is unlikely to decline to put out a fire at a school, hospital or on the DOC estate).

The Department should study some of the collection agreements between the territorial and regional councils. These represent pragmatic agreements between local authorities and identify the full range of issues that FENZ and local authorities might need to resolve.

<u>**Recommendations**</u>

4. That the Department liaise with councils that collect regional council rates on the issues that arise with collection and enforcement in these circumstances.

5. That any FENZ levy on properties clearly establish that property that are exempt from rates are liable for the FENZ levy.

[5] Additionally, there are other properties, such as the Carter Observatory, that are exempted under their own establishing legislation.

Open Meeting

To	Waikato District Council
From	Gavin Ion Chief Executive
Date	20 January 2020
Prepared by	Vishal Ramduny Strategic Projects Manager
Chief Executive Approved	Y
Reference #	GOV1301 / 2461385
Report Title	Submission - Land Transport (Rail) Legislation Bill

1. EXECUTIVE SUMMARY

The Land Transport (Rail) Legislation Bill is an omnibus Bill amending the Land Transport Management Act 2003 and the Land Transport Act 1998 to implement a new planning and funding framework for the heavy rail track network owned by KiwiRail.

The bill would implement a new planning and funding framework for the heavy rail track network owned by KiwiRail.

The Land Transport Management Act 2003 sets out the planning and funding framework for public transport, state highways, road policing, and local roads. The bill would bring the rail network under this framework. This is intended to allow for a more long-term strategic planning focus for the rail network, the ability to consider road and rail investment together, and an integrated and co-ordinated land transport investment programme.

The bill would establish a statutory rail network investment programme (RNIP) that would allow the rail network to be funded from the national land transport fund. Under the bill, the New Zealand Transport Agency (NZTA) would advise the Minister of Transport on how the RNIP fits with the overall land transport investment programme. KiwiRail would be responsible for providing rail activities funded from the national land transport fund.

The WDC submission is aligned with that of the Regional Transport Committee (and vice versa).

2. RECOMMENDATION

THAT the report from the Chief Executive be received;

AND THAT the Council approves the submission on the Land Transport (Rail) Legislation Bill, as attached to the staff report (subject to any amendments made at the Council meeting).

3. ATTACHMENT

Submission on the Land Transport (Rail) Legislation Bill

Your Ref	In reply please quote	If calling, please ask for
ECM 2461386	Submission on Land Transport (Rail) Legislation Bill	Vishal Ramduny

Date: 20 January 2020

Committee Secretariat
Transport and Infrastructure Committee
Parliament Buildings
Wellington

Phone: 04 817 8086
ti@parliament.govt.nz

Dear Sir/Madam,

RE: Waikato District Council Submission on the Land Transport (Rail) Legislation Bill

The Waikato District Council (WDC) welcomes the opportunity to make a submission on the Land Transport (Rail) Legislation Bill. The submission is consistent with that being made by the Waikato Regional Transport Committee.

1. Introduction

1.2. WDC acknowledges that the bill would implement a new planning and funding framework for the heavy rail track network owned by KiwiRail and that it will bring New Zealand's rail network under the Land Transport Management Act 2003 framework.

1.3. WDC also acknowledges that the bill would establish a statutory rail network investment programme (RNIP) that would allow the rail network to be funded from the national land transport fund.

1.4. WDC is a key partner in the Hamilton to Auckland Corridor Initiative together with Central Government, Auckland Council, Waikato Regional Council, Hamilton City Council, Waipa District Council and Waikato and Auckland iwi. WDC sees the impending Hamilton to Auckland start-up passenger rail service as a great opportunity to strengthen economic, social, environmental and cultural connections between Auckland and the Waikato region.

2. Submission points

2.1. WDC is supportive of the bill amending the Land Transport Management Act and the Land Transport Act to bring the planning and the funding of the rail network under the land transport planning and funding regime as this will ensure that our highways, local roads, rail can be planned on a long-term basis and with greater certainty.

2.2. WDC therefore supports any additional funding coming into the National Land Transport Programme (NLTP) for rail network improvements.

2.3. Section 22A of the Bill requires KiwiRail to prepare a rail network investment programme (RNIP) for the following 3 years starting , setting out KiwiRail's recommendations for the rail activities to be provided by KiwiRail and then funded, or partially funded, by the national land transport fund (NLTF). There are a number of specific submission points that WDC would like to make in this regard:

2.3.1. Whilst a planning and funding framework for rail is commendable, a three-year programme is too short-sighted for rail. Rail infrastructure and operations is extremely expensive for any country so it is important that careful consideration is given to planning key rail routes (both passenger and freight). This can only be done through proper long-term planning which considers rail investment alongside long term growth planning and associated infrastructure planning.
WDC therefore advocates that a 10-year rail investment programme be considered instead of a three year timeframe at the very least.

2.3.2. WDC notes that the bill will implement a new planning and funding framework for the heavy rail track network owned by KiwiRail. We believe that limiting the bill to rail track infrastructure does not really support an integrated and co-ordinated approach to a land transport investment programme. This is because rail network investments cannot be done without consideration being given to the location and construction of rail stations in key communities served by the rail network. WDC therefore submits that the bill makes it explicit that rail network infrastructure also includes railway stations and associated park and ride facilities required to support train services.

2.3.3. The Bill is unclear on whether Government will provide Crown funding into the NLTF for rail network improvements or whether these rail activities will be funded fully from existing funding sources (i.e. fuel excise duty, road user charges etc.) that make up the NLTF WDC seeks that the Bill clearly outlines under Section 22A (2)b where the funding sources for rail network improvements will derive from.

2.4. WDC notes that the Bill has proposed a 'partial integration' model in respect to rail funding, under which the Minister of Transport will hold decision-making rights over the quantum of rail investment and the programme of activities included in the RNIP rather than the New Zealand Transport Agency (NZTA) Board. We understand that the Minister will need to retain a greater level of control over rail investment in the short to medium term, given a historic lack of funding in the rail network. However, the WDC would support a transition to full integration in the longer term, under which the rail network activities will be considered as part of the Regional Land Transport Plan (RLTP) and NLTP decision-making process. This would allow regions to determine which rail activities they want to put forward and to prioritise these activities against other transport projects based on a whole-of-network approach.

2.5. Section 22A (4) states that KiwiRail must prepare the first RNIP by 1 July 2021 which is the legislative date that the next NLTP must be released by. The bill does not make mention that KiwiRail should prepare the RNIP through consultation with relevant local authorities on their rail programme. WDC therefore seeks a mandatory requirement for KiwiRail to consult on the RNIP with relevant Regional Transport Committees prior to the RNIP being sent to the Minister.

2.6. Section 105A relates to KiwiRail representation on regional transport committees. WDC supports this clause and in particular Clause 105A (5) which relates to the Minister being able to name other regional transport committees to which the 105A requirements relate to. WDC advocates that the Waikato Regional Transport Committee be a named regional transport committee due to the strong role that rail plays in the Waikato region in respect to freight and in the pending passenger rail service to Auckland.

2.7. Part 2 of the Bill relates to charges for use of the rail network in the Land Transport Act 1998. The Explanatory note of the Bill states that legislation changes will ensure that track users can contribute to the costs of the rail network in a fair and transparent way and that a minor amendment to the Land Transport Act 1998 will allow fees and charges established by regulation under part 11 of that Act to become land transport revenue. The change will allow for track charges, set by regulation, to recover rail network costs for track users, to be paid into the NLTF as revenue. The Waikato RTC supports greater transparency of the track network charging process so as to minimise the risk to local authorities of track charges rising to unacceptable levels.

2.8. This bill recognises the importance of metropolitan rail in the Auckland and Wellington regions and, under the bill, KiwiRail will become a member of the regional transport committees in those regions. There are a couple of points WDC with like to submit on relating to this:

2.8.1. No recognition is given to the importance of regional rail between Hamilton and Auckland in the bill. The Hamilton to Auckland connection is a one of the key lynchpins of the Hamilton to Auckland Corridor Initiative overseen by the Future Proof partnership. WDC would therefore like the bill to recognise the planned Hamilton to Auckland passenger rail connection. KiwiRail is a key member of the Hamilton to Auckland Corridor Initiative Steering Group and is working with Waikato District Council, Hamilton City Council, Waikato Regional Council and NZTA on the Hamilton to Auckland Start Up passenger rail service. Referencing the Hamilton to Auckland rail connection in the bill will help reinforce the existing relationship partnership with KiwiRail and the planning that is already underway for both the start-up service and subsequent improvements thereafter.

2.9. WDC would like the bill to make explicit mention that the Auckland 'metropolitan rail network' should include those communities outside of the Auckland Council jurisdiction which would also benefit from such a network (e.g. Te Kauwhata, Pokeno and Tuakau). These communities are intrinsically linked to Auckland and if they are not recognised as part of a wider Auckland metropolitan area there is a danger that rail infrastructure planning could ignore the importance of connecting these communities into the metropolitan rail network.

3. Conclusion

3.1. WDC thanks the Transport and Infrastructure Select Committee for the opportunity to submit on the Land Transport (Rail) Legislation Bill.

Waikato
DISTRICT COUNCIL
Te Kaunihera aa Takiwaa o Waikato

3.2. WDC is supportive of the provisions in the Bill which implements a new planning and funding framework for the heavy rail track network owned by KiwiRail.

3.3. WDC re-iterates that investment in track infrastructure also requires associated investment in relevant station infrastructure and for the operation of the train service itself. Rail is extremely expensive and, for a country that does not have a large population base, will require substantial and long-term government financial support for it to be viable and sustainable.

3.4. WDC seeks that a number of changes, as sought in this submission, be made to the legislation before it is finalised.

4. Further Information

4.1. Should the Transport and Infrastructure Committee require clarification of the points raised in this submission, or further information, please contact Vishal Ramduny (Strategic Projects Manager – Vishal.Ramduny@waidc.govt.nz) in the first instance.

4.2. WDC wishes to be heard at the Select Committee hearings for the Land Transport (Rail) Legislation Bill.

Yours faithfully

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Allan Sanson

MAYOR

Open Meeting

To	Waikato District Council
From	Gavin Ion Chief Executive
Date	22 January 2020
Prepared by	Brendan Stringer Democracy Manager
Chief Executive Approved	Y
Reference	GOV1301
Report Title	Exclusion of the Public

1. EXECUTIVE SUMMARY

To exclude the public from the whole or part of the proceedings of the meeting to enable Council to deliberate and make decisions in private on public excluded items.

2. RECOMMENDATION

THAT the report of the Chief Executive be received;

AND THAT the public be excluded from the meeting to enable Council to deliberate and make decisions on the following items of business:

REPORTS

Raglan Wastewater Treatment Plant Discharge Consents (Renewal)

The general subject of the matter to be considered while the public is excluded, the reason, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 are as follows:

Reason for passing this resolution to withhold exists under:	**Ground(s) under section 48(1) for the passing of this resolution is:**
Section 7(2)(b)(ii) **Section 7(2)(j)**	**Section 48(1)(a)**

3. ATTACHMENTS

Nil