



**New Zealand Institute of Forestry**  
Te Pūtahi Ngāherehere o Aotearoa Incorporated

29 January 2020

Submission to:

Fire and Emergency Funding Review  
Department of Internal Affairs  
PO Box 805  
Wellington 6140

## **Submission on the Fire and Emergency Funding Review**

Contact details for this submission are:

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## Introductory comments

- 1) Thank you for the opportunity to submit on the Fire and Emergency Funding Review.

### About the Submitter

- 2) The New Zealand Institute of Forestry (NZIF) was founded in 1927 and has 850 members who are individual professionals in forestry in New Zealand. NZIF's objective is to advance the profession of forestry in New Zealand and to be an independent advocate for forestry. NZIF is committed to serving the practice of forestry and the wider community through education, accountability and its code of ethics and performance standards. The members' qualifications and areas of expertise reflect the diversity of disciplines involved in managing a modern forest resource from traditional forestry degrees through science, economics, law, microbiology, hydrology, engineering and resource management. NZIF operates the scheme which controls the registration and conduct of forestry professionals, including consultants who provide forestry advice to the public and private entities.
- 3) The NZIF also has a strong association with its Australian counterpart the Institute of Foresters, Australia (IFA). One element of this association is that a joint conference between the two Institutes is held every four years. One component of the joint IFA/NZIF Conferences involves a focus on forest fire management. From a wide range of discussions at the 2015 joint conference was the following conference resolution which was passed by those in attendance;
  - a) *That the IFA and the NZIF form a forward looking position in relation to fire, involving a strong focus on proactive land management mitigation measures balanced against an operational fire response focus, and that both organisations:*
    - i) *review current fire-related policies,*
    - ii) *endorse the National Bushfire Management Policy Statement for Forests and Rangelands,*
    - iii) *endorse the National Research Priorities to 2020 and Beyond for bushfires, and*
    - iv) *encourage Australian Federal and state and New Zealand governments to provide adequate funds to reduce the fire risk which shall reduce the cost of fire response and hence the total expenditure on fire.*

## Fire and Emergency NZ Funding Review Discussion Document

### Overview

- 4) The fire management requirements of the urban build environment and the forest and rural landscape are like chalk and cheese. The priorities and practices in the rural fire context are different to those in the urban fire context. The spatial distribution of farms, forests and assets, the distribution of small rural communities, the fire risks and vulnerabilities, the land-use policies, strategies and practices, and the different stakeholder groups, are all components which require a collective focus by those involved with the use of fire and management of unwanted fires in the forest and rural landscape.
- 5) In contrast to the above, in April 2016 Internal Affairs Minister Peter Dunne announced the merger of the urban and rural fire services. The Minister also announced transition funding of \$303 million, over five years, to combine urban and rural fire services into one organisation from mid-2017. Mr

Dunne also advised Parliament that there will be savings of \$47.7m<sup>1</sup> for a one fire service entity after five years. The claim that this merger would achieve costs savings over the old approach by \$47m would have been one of the defining points in justifying this proposal. Providing the services were not reduced this would repay this investment cost of the merger within seven years.

- 6) In a 2016 submission to the Parliament Governance and Administration Select Committee (when considering the Fire and Emergency NZ Bill) the NZIF advised the Select Committee they needed to note the serious flaws in the financial figures which had been used to support and justify a takeover by the NZ Fire Service of the roles and functions of Rural Fire Authorities. This was based on the two completely different environment and two completely different cultures between urban and rural stakeholders. NZIF also advised that this one fire service entity will create continuous conflict, bring inefficiencies and will increase the annual costs involved to all New Zealanders. NZIF also advised the Select Committee that the likely increase in annual costs for this merger would be \$400m plus over the first four years.
- 7) After the first two years of this merged entity FENZ has spent an additional \$254 million. To add to this FENZ has now projected, in their FY2019/20 Statement of Performance Expectation, that over the first five years to 2021/22, FENZ intends spending an additional \$904.2 million. This is \$601.2 million greater than the \$303 million approved by Government at the time of agreeing to this merger.
- 8) This level of expenditure is also alarming given that Department of Internal Affairs, as directed by Cabinet, obtained independent advice on the following two questions;
  - a) Review the baseline cost of the Fire Service Commission's operations and performance;
  - b) Review the baseline cost of the rural fire service to inform the transition to the new organisation and to understand its likely costs.
- 9) The March 2017 PWC Report (Stage one) revealed that, for the NZ Fire Service FY2015/16 expenditure of \$389 million, PWC found this appropriate for the function and output responsibilities that the NZFS had. The report stated that; *"Overall, we conclude that the existing level of funding is appropriate for the scope of NZFS's business as usual activities as existed in 2015/16."* In addition the January 2017 Martin Jenkins Report on the Costs of Rural Fire Services showed that the local government, over a three year period, incurred a normalized 2016 annual cost for their rural fire responsibilities of \$29 million. With this independent advice from PWC, and Martin Jenkins, this shows the total cost of \$418 million for fire services in 2016. It is now concerning to see the costs in 2019/20 sitting at \$605.8 million.

### **Funding Review**

- 10) Prior to July 2017 urban fire services (provided by the New Zealand Fire Service) were funded from the fire levy calculated on property and motor vehicle insurance). Rural fire services, provided by Rural Fire Authorities, were funded from a mix of the following:

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<sup>1</sup> Cabinet Economic Growth and Infrastructure Committee EGI-16-MIN-0064

- Local Government through rates
- National Rural Fire Authority Rural Fire Grant Assistance Scheme
- Department of Conservation
- Forest owners and land holders through levies
- Cost recovery from people responsible for unwanted rural fires.

11) From 1<sup>st</sup> July 2017 FENZ is funded only through a levy on commercial and residential property, and motor vehicle insurance, along with an annual \$10 million contribution from the Crown. No direct funding is provided by forest and rural landowners. Internationally, there is a growing trend to move away from insurance-based funding regime for fire and emergency services. This is likely due to the inherent limitations of insurance-based approaches. Given the now serious inequities on who funds fire services in New Zealand the Government has suddenly decided, two and half years following the establishment of FENZ, it will take steps to review the way FENZ is funded.

12) The Minister of Internal Affairs released an undated Discussion Document in October 2019. The purpose of this Discussion Document is to find out whether there are more suitable options than the current approach, which is based on a levy paid on insurance contracts. The first phase of the review is about collecting information. The Discussion Paper states that this feedback will be used to develop a preferred approach for Cabinet consideration. The Minister of Internal Affairs has advised that she will be consulting again in phase two of the review on the impacts on businesses and households. The objective is to ensure the system is fair and affordable for everyone. The Government has commissioned the Department of Internal Affairs (DIA) to undertake this review under the direction of the Minister of Internal Affairs.

### **Broader Review Timeline**

13) The Discussion Document has stated that 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.

14) 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.

### **Discussion**

15) Developing a public policy position on funding fire services in New Zealand should be based upon public policy principles, including equity and fairness, efficiency, legitimacy, transparency and visibility, as well as a revenue stream design and administration principles including neutrality, breadth of base, certainty of revenue, simplicity, ease of administration, and convenience of payment.

- 16) The current arrangements for funding the fire services were introduced as a 'temporary fix' in 1993. A 2014 New Zealand Institute of Economic Research (NZIER)<sup>2</sup> report identified that twelve reports have been produced since 1993 and almost all recommend moving away from the current levy to at least partial use of alternative bases, including greater use of general tax revenue funding.
- 17) Many forest owners in New Zealand retain a capability in trained forest firefighters and specialist forest fire fighting equipment eg., lookout towers, 4 x 4 tankers, fire pumps, fire hose, specialist hand tools, etc. These forest owners have a key objective of protecting their forest estate from fire through thorough preparation and training of staff and contractors. There is also a major focus of minimising the outbreak of fire through stringent security, awareness and communication of fire dangers.
- 18) The forest industry is only too aware of its susceptibility to the impacts from unplanned wildfires. In recognition and in response to the potential for fires to start from a range of sources, the forest industry in New Zealand has developed a Voluntary Forest Operations Fire Risk Management Code. This Code contains a number of restrictions that can be implemented by forest companies on their forest estate on days of extreme fire dangers including actions such as early day time cessation of machine operations, restriction on certain spark generating activities and an overall higher level of preparedness and awareness.

### **Discussion Document Questions**

In the first phase of this FENZ funding review the Government is seeking answers to a number of questions. These are outlined in the Discussion Document. The following is the NZIF response to this list of questions:

#### ***Questions 1 & 2***

- 19) The current principles appear to be complex, detailed, and fails on the principle of providing a fair and equitable funding model. In addition it is paramount that if a fire levy tax is to remain that it be paid by all who receive services delivered by FENZ.
- 20) What gets measured gets done? One of the key principles, when measuring value for money, is to determine the annual costs of the key output measures eg., total cost of individual extended fire incidents both urban and rural, an annual cost per capita by community, the cost to protect Department of Conservation lands, etc.
- 21) A further key principle is to provide equity and fairness. One component of the funding model used by a number of States in Australia is worthy of adoption here in New Zealand. Where communities are protected by paid urban firefighters they incur a greater annual cost per property versus those communities protected by volunteer firefighters. This recognises the additional community in-kind contribution which volunteer firefighters provide.

#### ***Questions 3 to 6***

- 22) The discussion document makes no reference to what process will be used to cover the FENZ costs involved in the management of fire in the Conservation estate.

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<sup>2</sup> <http://www.icnz.org.nz/wp-content/uploads/The-future-of-the-Fire-Service-Levy-summary-of-NZIER-May-2014-and-2013.pdf>

- 23) The Department of Conservation, under the Conservation Act, is required to manage weeds, pests, water, soils, etc., and be accountable to the Crown for these functions. To abdicate its primary fire responsibility to a Crown Entity (which has no forest and land management responsibilities) seems an unconceivable Government public policy position to take for New Zealand.
- 24) The NZIF raised concerns re the regulatory management of fire in the conservation estate in its submission to the Fire and Emergency NZ Bill. This Bill stated that FENZ would be given the primary responsibility for the fire management on conservation land. NZIF did not support this proposed role for FENZ. No changes were made to this section of the Bill and now FENZ is responsible for the fire management in DOC lands.
- 25) If the fire responsibilities for DOC lands is to be retained by FENZ then FENZ must identify the costs involved with the fire protection of DOC lands. If the current provisions are to be retained for the regulatory role for the management of fire within the DOC estate, any proposed FENZ funding regime, needs to have the ability to identify the costs involved and ensure that these costs are carried by DOC.

**Questions 11 to 13.**

- 26) The current Crown annual contribution to FENZ is \$10 million. From a public good benefits this annual contribution, as a component of \$617 million, is not a fair reflection of this public good benefit. Given the public good contribution provided by FENZ, to the people of New Zealand, the annual Crown contribution should be at least half of the FENZ annual cost.
- 27) In addition a user pay approach is required on a number of activities undertaken by FENZ. With more than one out of every two fire calls relating to false alarm calls to buildings, this is one area where costs involved must be recovered from those building owners. The incentive to building owners to ensure their alarm systems are operating without defects, a charge by FENZ is required for unwanted false alarms. It makes good sense for FENZ to be in a position to legally recover the cost involved in sending FENZ resources (which can include the unnecessary time of volunteers) to these unwanted false alarm calls. This was the case in fire legislation prior to 2017, but not carried over to the Fire and Emergency NZ Act 2017. Such provisions contained in the Fire Service Act 1975 should be reinstated into the 2017 Act.
- 28) Uncontrolled vegetation fires can and do impact on forest and rural landowners. The Fire and Emergency NZ Act 2017 is deficient on including the necessary provisions for FENZ to recover the fire suppression costs from a person(s) who are proven to causing a fire resulting in the unnecessary fire suppression costs, as well as the unnecessary potential for large losses of rural assets.

**Questions 14 & 15**

- 29) In Victoria, Australia, the Victoria Commissioner for State Revenue has a function to (a) receive fire levy amounts and levy interest collected by a local authority and pay those amounts into the Consolidated Fund; and (b) monitor the performance of a Council appointed as, or directed to be, a collection agency.
- 30) Currently the FENZ Board has both a function, of collecting the fire levy tax, and to approve its operational expenditure from the fire levy fund. In order to avoid a conflict of interest it is proposed that there be a degree of separation between FENZ and the entity which collects the fire levy tax.

To provide a degree of separation it makes sense that a model similar to the Victorian State is used. That is for the New Zealand Treasury to –

- a) Receive the fire services property/land levy collected by collection agencies; and
- b) Generally monitor the performance of the collection agencies.

31) This would then enable the Minister of Internal Affairs, and the Minister of Finance, to provide oversight and approval for the FENZ annual budget which is then funded by the New Zealand Treasury from the fire levy fund and general tax revenue.

## Conclusions

For consideration, and noting, as a part of the review of FENZ funding regime, the following is provided;

- 32) In the current financial year FENZ annual expenditure on fire services has increase to more than \$600 million when only into its third year of this merger. This has occurred coming from a base of \$400 million in FY2016/17. This is a concern for forest and rural stakeholders. If a question was asked as to who will be expected to provide the funding for this additional \$200 million (if a land risk based FENZ funding regime is implemented) would this fall only on forest and rural landowners to pay.
- 33) This concern is based on the premise that in 2016/17, \$400 million was seen as adequate by PWC to fund the services provided by the NZ Fire Service. With the Martin Jenkins report this showed the cost of rural fire services in 2015/16 as \$29 million. Why has there been a need to increase funding by a further \$171 million in the third year of this merger.
- 34) Local government and forest industry, when advised by the Minister in 2016, they would no longer be required to fund rural fire services, they provided candid support for the urban rural fire merger.
- 35) Had a review of the funding of fire services also been undertaken at the same time (when the Minister of Internal Affairs Peter Dunne led the process to merge urban and rural fire services) the affected forest and rural stakeholders would likely have taken a different position on this proposed urban rural fire merger.
- 36) With regards to the questions outlined in the FENZ Funding Review Discussion Documents, a large portion of FENZ expenditure is deemed to be services provided for public benefit. Given this proposition it makes for good public policy that the majority of the FENZ funding be provided by general taxation.

## Recommendations

- 37) The NZIF recommends that the Government;
  - a) Review why the FENZ annual expenditure has increased by more than \$200 million when only into its third year of the urban rural fire merger.
  - b) Keep the current FENZ fire levy regime, based on property and motor vehicle insurance, to cover the first \$300 million of annual FENZ funding;
  - c) Provides the balance of the FENZ annual funding from general taxation.
  - d) That the New Zealand Treasury –
    - i) Receive the fire levy collected by collection agencies; and
    - ii) Generally monitor the performance of the collection agencies.

- e) That the Minister of Internal Affairs, and the Minister of Finance, to provide oversight and approval for the FENZ annual budget which is then funded by the New Zealand Treasury from the fire levy fund and general tax revenue.
- f) That where communities are protected by paid urban firefighters they incur a greater annual cost per property versus those communities protected by volunteer firefighters.
- g) That any FENZ funding regime, needs to have the ability to identify the costs involved in the fire protection of DOC lands, and ensure that these costs are carried by DOC.