

Stage 2 Interim Cost Recovery Impact Statement

This document provides information in support of a proposal to approve consultation on proposed Part 3 levy rates for Fire and Emergency New Zealand.

Agency Disclosure Statement

This Interim Cost Recovery Impact Statement (CRIS) has been developed to analyse and support the proposed options for operationalising the Part 3 levy outlined in the accompanying discussion document.¹

This CRIS was prepared by Fire and Emergency New Zealand. It provides justification for a proposed 5.2% increase in levy revenue and supports the consultation activity that is required under the Fire and Emergency New Zealand Act 2017, for both the levy setting process and the activities Fire and Emergency undertakes which underpin its levy revenue needs. The need for this increase in levy revenue is based on known cost pressures and priorities for Fire and Emergency for the three-year period from 1 July 2026.²

Our analysis underpinning the proposed levy increase is based on projected revenue requirements to maintain our current levels of service and deliver to our outcomes over the three-year period. For the purposes of the Part 3 levy, this requires:

- Building an understanding of projected future costs for the three-year period and developing a total revenue envelope to meet those needs,
- Allocating the costs across policy holder groups, in line with government and legislative guidelines and expectations, in order to set appropriate levy rates.

Revenue envelope

Projecting future costs into the medium to long term inherently relies on the use of assumptions, which can change significantly over time. To minimise the impact of this, the calculations underpinning the proposed levy rates are based on several overarching assumptions for the three-year levy period from 1 July 2026. These assumptions include:

- There is no change to our workforce numbers and working patterns with over 66% of our funding going towards remuneration and staffing costs for our national workforce.
- That there are no changes to the existing network of stations supporting Fire and Emergency activities. Changes to the network would be based on future scenario resourcing and capability plans and take time to implement beyond the three-year levy period.

¹ The accompanying discussion document outlines the process for consultation on Fire and Emergency's activities and proposed levy rates and seeks feedback from stakeholders on the activities and levy rate proposals and impacts

² Under Section 142 of the Fire and Emergency Act the Minister is required to outline costs for the coming three-year period. With the time it takes to consult on a proposed levy and for the insurance industry to implement Cabinet decisions on the levy, it is necessary to develop proposals now for the levy that will apply from 1 July 2026 to 30 June 2029

- Similarly, there are no changes to the delivery approach. Revised staffing levels as a result of the 2022 industrial settlement has been included in the modelling, in line with updates made at the end of the 22/23 FY.
- Current service levels and activities are assumed to apply throughout the levy period, to maintain alignment with the current performance and outcomes expectations of Fire and Emergency. Further analysis will be undertaken to understand the potential impacts and implications of any changes to the station network or our service delivery approach.
- That there are no significant material changes in the demands for Fire and Emergency services. While acknowledging the recent impacts of natural disasters in New Zealand, levy calculations assume Fire and Emergency has sufficient current capacity across its network of stations, personnel and fire appliances to provide emergency response.
- Recognising in the levy calculation a 2.7% per annum increase in the dollar value of the revenue base (arising from increases in insured values due to inflation, or because the amount of property insured has increased in line with growth) over the period 1 July 2026 to 30 June 2029 to prevent potential over collection, in line with historical trends. Differences in future growth may result in over or under collection of levy revenues.
- Costs are expected to rise in line with Treasury economic forecasts.
- Capabilities are maintained at current levels, including end of economic life asset replacement activities.
- There is no change in the Crown's public good contribution to Fire and Emergency.

There are constraints and uncertainties within these assumptions that can result in projections not aligning with future reality, but our assumptions provide a best estimate of a likely future scenario. If there are differences between the assumptions used and future activities, this has the potential to:

- Create surpluses or deficits, such as when there are differences in cost assumptions or revenue drivers; and
- Create a difference in relative policyholder group contributions, such as when actual incidents occurring differ from assumed incident types.

Levy setting

Our cost allocation methodology applies the principles established within the legislation and set out in guidance from The Treasury and the Office of the Auditor General. It directly attributes response costs to activities where applicable, and then allocates readiness costs and corporate overheads to activity groups proportionately in line with response costs for incident types. Each activity group cost pool is attributed to one of three policy holder groups, in line with the incident type data.

To determine the levy rate, these policy holder group costs are then apportioned to individual policy holders using drivers and methodology relevant to each policy holder group.

Key assumptions underpinning this allocation and levy setting methodology include:

- Incident data has been used to apportion costs between policy holder groups as a proxy for use of or benefit from the potential to use Fire and Emergency services. Historical incident data is assumed to continue in a similar pattern over the levy period, but any shifts in activity may result in differences between the use of or benefit from the potential to use the services and the relative proportion of levy revenue paid by policy holder groups.
- A shift from indemnity value (present-day value immediately prior to the loss) to sum insured (maximum insured pay out amount) as the basis for the Residential levy. The use of the “sum insured” value is an imperfect but best available proxy for “potential benefit”. This will result in potential changes to the level of levy paid at an individual policyholder level but does not change the overall assumptions for levy revenue by policyholder group.
- Estimations of the relative size of policy holder groups is based on information held by Fire and Emergency and a sample of information provided by the insurance sector. Any differences between these assumptions and the future state can lead to under or over collection of revenue compared to projections.

While the data underpinning this analysis provides a best estimate of the relative size of groups, any shift in basis or market behaviours creates uncertainty within the modelling. These assumptions will be tested further through public consultation.

Limitations

There are also several other statutory considerations and data limitations that need to be considered in achieving cost recovery from the proposed levies. These include:

- The tension between universality and the insured property levy, where uninsured property has the potential to benefit from Fire and Emergency services, but the owners do not have insurance contracts and so do not share in the costs through an insurance-based levy regime.
- The legislation requires that a uniform annual levy amount should be charged per vehicle, which can limit the ability to apply an equity lens to the levy setting process for this property type.
- The unavailability of data or information limits the ability to effectively differentiate within policyholder groups to reflect risk in establishing an equitable levy rate.
- Incident data is used as a proxy for use, or benefit from the potential to use, Fire and Emergency Services when allocating costs into policyholder groups. While this provides the best available proxy, it does not necessarily directly reflect actual effort/costs and historical patterns may not necessarily reflect future activities.
- Sum insured is used as proxy for benefit, and to a degree risk, but while it is the best available basis it can limit the ability to apply statutory principles.
- There is some uncertainty around the implications of moving to a sum insured basis from an indemnity value basis, with limited historical information to base projections on, which may have implications for over or under collection of revenue.

- Cabinet decisions are yet to be made on proposed changes to exemptions from the levy. The impact of the proposed changes on levy rates is very small, since the affected policies make up such a small proportion of the overall levy base. Should Cabinet agree to changes that differ from those proposed, any subsequent change to levy rates is likely to be immaterial.



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20 March 2024

Quality Assurance Review

The Department of Internal Affairs's Regulatory Impact Analysis panel has reviewed this interim CRIS and considers that the information and analysis summarised in the interim CRIS *partially meets* the quality assurance criteria set out in the CabGuide.

The panel noted that the interim CRIS outlines the background and context for Fire and Emergency NZ's proposals for the first levy under Part 3 of the Fire and Emergency New Zealand Act 2017 (the Act) as set out in the accompanying public consultation document. The interim CRIS sets out the statutory framework and limitations for the design of the levy, and the impact of information limitations on the options that are available. The calculations and assumptions underlying the levy proposals are described in detail, and the impact of the proposed levy is compared to that of the transitional levy that it will succeed.

However, the panel felt that the interim CRIS would be improved by a clearer and more concise description and rationale for the methodology that has resulted in these proposals and a more meaningful discussion of options. While alternative revenue targets for the levy are assessed against their impacts on Fire and Emergency NZ's financial position, these assessments are all made in the context of maintaining current levels of service and outcomes over the three-year period. Opportunities for operational efficiencies or other cost-savings, and their consequences, are not explored, and there is limited discussion of the impacts of higher, or lower, service levels on projected revenue needs. The scope of the analysis of the levy rates could usefully be broadened beyond financial considerations, and the risks identified in the CRIS should be assessed in terms of impacts on the new levy rate options.

While these shortcomings do not significantly detract from the plausibility of the levy proposals as a basis for the public consultation to which Cabinet agreement is sought, a more complete and robust assessment of options will be required when final levy decisions are sought following the statutory consultation period.

20 November 2023

Executive summary

Fire and Emergency New Zealand undertakes critical fire and emergency risk reduction and response services as outlined in the Fire and Emergency New Zealand Act 2017 (the Act). Part 3 of the Act provides a framework for the setting of the rates to fund Fire and Emergency New Zealand activities but does not set the levy rates. The rates themselves are set by regulation. The changes to the levy system arising from Part 3 of the Act are due to come into force on 1 July 2026.

Under section 143 of the Act, Fire and Emergency is also required to consult about the proposed regulations with levy payers, policy holders, and any other persons that Fire and Emergency considers are likely to be substantially affected.

Future revenue needs

One of the main factors in the setting of levy rates is the forecast costs (both operating and capital) that will need to be funded from levies and other sources over the 1 July 2026 to 30 June 2029 period.

While our main costs are people-related, including training, a key driver of Fire and Emergency's costs is the personnel costs associated with the network of stations and fire appliances that it operates, our frontline costs. Approximately \$300 million (or 62%) of these costs relate to delivering our frontline services and ensuring our frontline people have the training, tools, equipment and support available when they are needed (attributed as direct frontline support cost).

In forecasting our future revenue needs, we have assumed that our capabilities are maintained at current levels, based on the current network of stations and appliances and no changes to the levels of service we provide. The current operating premise is location-based responses to fires, traffic accidents and other emergencies such as civil defence emergencies. Whilst most of the country geographically is serviced by volunteers, stations appliances and equipment (including ICT) are needed to enable their response. The current operating premise also assumes the ability to respond at times of peak demand, which requires paying career staff for 'readiness', and budgeting for emergency peak resource payments.

The network of stations, fire appliances and equipment reflects the activities Fire and Emergency is required to carry out under its legislation, as highlighted in the discussion document. While we are consulting on the level of the services we should provide over the levy period, our assumption is made to align with the current performance and outcomes expectations of Fire and Emergency New Zealand.³ Further analysis is being undertaken to understand the impacts and implications of potential scenarios arising from the drivers of changes in the levels of our services, which may impacts on our station network and equipment needs.

In addition to future revenue needs, Fire and Emergency holds cash in reserve to fund:

- working capital (money in the bank to fund day-to-day operations) of \$25 million;

³ <https://fireandemergency.nz/assets/Documents/About-FENZ/Key-documents/FENZ-1664-Statement-of-Performance-Expectations-2023-24.pdf>

- liquidity buffer (to allow for delayed levy payments and/or unexpected additional expenses) of \$10 million; and
- one significant adverse event (for example, earthquake, major wildfire, widespread flooding) of \$15 million.

This CRIS outlines different revenue scenarios and identifies Fire and Emergency's preferred option of a 5.2% levy revenue increase from 1 July 2026 that would provide sufficient revenue for the 2026 to 2029 period. The objective of this cost recovery proposal is to fund Fire and Emergency to maintain its current level of service. The other revenue scenarios considered include:

- Nil Levy revenue increase – assume no changes to levy revenue other than assumed levy growth of 2.7%
- 3.6% levy revenue increase – based on a projection that results in Fire and Emergency reducing its cash reserves so that they approach zero by 2030.
- 5.2% levy revenue increase (proposed) – assumes that Fire and Emergency largely maintains its current service levels and a \$50 million cash reserve to address unexpected events or significant responses if they arise.
- 7% levy revenue increase – allows for an accelerated capital investment programme.

The Nil and 3.6% levy revenue increase scenarios would see the projected costs of Fire and Emergency's activities exceed the funding available to meet them, which is not in line with the overarching objective of this proposal. The 7% increase would enable Fire and Emergency to accelerate its future capital improvement programme while maintaining sufficient cash reserves to address potential uncertainties and unexpected events.

The consultation to which this CRIS relates addresses the need to enable the Part 3 levy regime from 1 July 2026 and reflects the projected revenue requirements for the first three years it is in place.

Proposed levy structure for policy holder groups

In this CRIS we provide an analysis of the options for recommended levy rates for different policy holder groups. This analysis applies the statutory principles from section 80 of the Act and the Treasury's '*Guidelines for Setting Charges in the Public Sector*' (Treasury Guidance) to the design of proposed levy regime involving three distinctive components that are aligned with meeting the requirements of section 142 and 143 of the Fire and Emergency Act:

Step 1: Determining the future costs and revenue needs of Fire and Emergency for the three-year period of the levy

Step 2: The transparent **allocation of costs to activities** to ensure costs are allocated correctly to different policy holder groups, and factors in any decisions that the Government has made on policy holder groups that are exempt from the levy. (see Appendix D)

Step 3: Determining the proposed levy rates for different policy holder groups

Calculating levy rates requires us to estimate the size of policy holder groups and the insured value of their assets over the next levy period. We have limited information about some of these groups and have had to extrapolate based on the data we have.

This proposed methodology led to proposed Part 3 levy for the policyholder groups outlined in Table 1 below:

Table 1: Proposed Part 3 levy by policy holder group (GST excl.)

Policy Holder Group	Proposed Part 3 levy (1 July 2026 to 30 June 2029)
Insurance for residential buildings and personal property	1.85 cents per \$100 insured. Insured amounts capped at: Buildings \$625,000 Personal property \$75,000
Insurance for motor vehicles	\$40.12 (flat rate for each motor vehicle insured, including third party only)
Insurance for other property	11.51 cents per \$100 insured. No capped insured amount.

Status quo

Fire and Emergency was established in 2017 following the merging of the urban and rural fire services.

Section 11 of the Act sets out the core functions provided by Fire and Emergency New Zealand. These are:

- to promote fire safety, including providing guidance on the safe use of fire as a land management tool;
- to provide fire prevention, response, and suppression services;
- to stabilise or render safe incidents that involve hazardous substances;
- to provide for the safety of persons and property endangered by incidents involving hazardous substances;
- to rescue persons who are trapped as a result of transport accidents or other incidents;
- to provide urban search and rescue services; and
- to efficiently administer the Act.

Section 12 of the Act outlines additional functions that Fire and Emergency are to assist with if they have the capability and capacity to do so.

We carry out these functions to prevent harm to life, property and the environment.

Table 2 shows the level of activity undertaken by Fire and Emergency for our most frequent types of incident, based on incident activity data for the 2022/23 financial year.

Table 2: Share of total incidents by incident type ⁴

Type of incident	Number of incidents attended
111 calls answered ⁵	97,890
Incidents attended	88,531
Structural fires	3,788
Other fires	6,812
Motor vehicle collisions	8,138
Medical emergencies	11,714
Unclassified	19,885
Vegetation fires	2,460
Hazardous substances	468
False alarms	25,601
Other incidents	9,665

All Fire and Emergency’s activities are **readiness** activities associated with **response**, or **risk reduction**.

Readiness: being able to respond when needed

Readiness for fires and emergencies is making sure we’re prepared by having fire stations, firefighters, fire engines and other equipment where they are needed, having the right training and capability and a good understanding of how our environment is changing and what that means for our response planning.

Our readiness activities account for most of our costs. When we are not responding to fires and emergencies, we are preparing for future emergencies, retaining our skills and capability, and community engagement and preventative measures to reduce the risk of fire.

As well as assessing changes to the environment, preparing for future emergencies includes reviewing our response to previous emergencies and making changes so we continue to improve.

⁴ Other incidents include Rescue, HAZMAT and Heat/Pressure incidents.

⁵ These calls are included in the statistics of the incidents we attended below

Response: Acting when we are needed

Responding to fires and emergencies. We are usually one of the first agencies called on when emergencies happen. We respond to fires, car accidents, medical emergencies, wildfires, flooding and natural disasters, from our network of local fire stations.

These include many of our main functions, as set out in the Act, and additional functions where we assist if we have the capacity and capability.

The geographical spread of our fire stations has enabled us to provide a first response capability in almost every community and has seen our additional functions account for an increasing percentage of our callouts.

Our additional functions rely on us having the capability and capacity to respond without impacting our main functions response, but as we have a workforce available 24/7 it makes sense that we are one of the first to respond in times of need.

Risk reduction: Improving fire safety and preventing unwanted fires

Reduce the risk of unwanted fire. Fire risk reduction and prevention are also amongst our main functions.

We work with councils and the building and construction industry to support the development of building-related legislation and guidelines, do risk assessments and provide technical fire safety advice. We administer regulations for fire safety evacuation schemes and procedures.

Our risk reduction work also prevents harm to life, property and the environment before it happens. We work across the sector with specialists to understand national trends, research and data. We also work closely with communities to identify local risks and hazards that we can address together through tailored education programmes.

Backed by research and data, we design and deliver national programmes in a variety of different ways including social media to educate people on how to reduce the risk of fire.

Key Enablers

The delivery of activities is underpinned by two key enablers: our personnel and our assets and infrastructure.

Our personnel costs for the year ended 30 June 2023 were \$485.0 million, making up over 64% of our total operating costs. This reflects:

Firefighters

- 1,807 career firefighters
- 8,547 volunteer firefighters

Support

- 2,117 volunteer brigade support
- 1,168 volunteer operational support

- 1,138 management and support

A recent settlement reached with the NZPFU will result in an increase in personnel costs, shifting the relative levels of operating expenditure. The increase in staffing numbers has been factored into our modelling.

Our assets and infrastructure consist of property, fleet, equipment and ICT equipment, and had a value of \$1.36 billion as at 30 June 2023. The depreciation and amortisation expense, representing the use of those assets, for the 2022/23 financial year was \$75.2 million – 10.0% of total operating costs. In addition to capital related operating expenses, the levy also funds the capital expenditure programme. Appendix A provides further detail on costs and expected investment in our assets and infrastructure.

Other expenditure

The balance of Fire and Emergency's operating expenditures total \$175.8 million (24.2%) of total operating expenditure in the year ending 30 June 2023. These include expenses relating to the repairs and maintenance of the vehicle fleet and other areas of expenditure directly related to enabling firefighters to carry out their roles (such as the cost of uniforms, travel/training expenditure or specialist equipment hire). Most of the balance of the costs relate to statutory obligations such as audit costs, board costs and other areas that are largely non-discretionary. Staff costs are necessary to enable all of these activities. Appendix C provides further details on our operating expenses.

Context for Part 3 of the Act

The amendments to the Act change how the Fire and Emergency levy will be charged. The levy will be calculated on insurance for fire damage/loss based on sum insured compared to the original Part 3 of the Act where levy was to be payable on material damage based on amount insured. The Part 3 model will replace the existing 'transitional levy' funding model for Fire and Emergency.

The government is considering proposed changes to exemptions from the Part 3 levy. These are outlined in Appendix B.

Basis for the Part 3 levy

This proposal reflects the operationalisation of a new levy framework established in statute and is replacing a transitional levy regime. The reason for this review is primarily due to the implications of changes arising from the introduction of the Act and the requirements outlined in Part 3 of the Act. The authority to make regulations prescribing a levy is outlined in section 141 of the Act.

Prior to the establishment of Fire and Emergency in 2017, New Zealand's fire services had been funded through a variety of mechanisms including funding from local government for rural fire services and a levy on property insured against damage by fire for urban brigades. To fund the unified Fire and Emergency, the Fire and Emergency Act established a funding model which sought to improve on the insurance-based fire service levy which previously funded urban brigades.

Since 2017, Fire and Emergency has been funded by a transitional levy that will continue to be in operation until the new levy regime, referred to as the Part 3 levy, comes into force on 1

July 2026. The levy covers the significant majority (97%) of Fire and Emergency's total revenue.

The Act establishes the framework for the new levy, and determines that:

- an annual levy amount is payable for a motor vehicle that is the subject of a contract of motor vehicle insurance
- an annual rate of levy, calculated as a proportion of the sum insured, is payable in respect of any other property, other than a motor vehicle, that is insured under a contract of fire insurance

The regulations may:

- prescribe rates of levy for the following types of property that differ from the rate of levy prescribed for other property: residential property; personal property; any other property or class of property
- prescribe maximum amounts of levy payable for residential property; personal property; any other property or class of property
- provide for an exemption from the levy for any property or class of property, any contract of insurance or class of contract of insurance, or any policyholder or class of policyholder.

Policyholders are those people who have entered into a contract of insurance with an insurer and are captured under the Act. For levy setting purposes, and in line with s141(2) and (3) of the Act, we classify these people into three policyholder groups broadly reflecting insurance types:

- Motor Vehicle
- Residential property and personal property
- Non-residential property (being any other property or class of property)

The non-residential property category is quite wide and encompasses a wide range of non-residential properties that have differential uses of Fire and Emergency services. However due to information gaps we have been unable to break this category down into subgroups.

Cost Recovery Principles and Objectives⁶

Section 80 of the Act sets out the principles underpinning the establishment of the Part 3. The purpose is to provide a levy that is

- a) a *stable* source of funding to support FENZ in the performance of functions and duties and exercise of powers under this Act:
- b) *universal*, so that FENZ's costs are generally shared among all who benefit from the potential to use FENZ'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, FENZ'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 FENZ 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 FENZ's services; and
 - (ii) variations in FENZ's costs; and
 - (iii) changes to the expectations of the Crown and the strategic needs of FENZ.

These build on the principles outlined in section 1.3 “Key considerations in cost recovery” in the Treasury Guidance.

We consider that three of the principles – Stable, Predictable and Flexible – provide the basis for the levy system as a whole (as established in Part 3 of the Act) and the Universal and Equitable principles have greater emphasis in the determination and establishment of specific levy regulations.

We have also considered the use of the Simplicity principle outlined in the Treasury Guidance. This was driven by representatives from the insurance industry expressing a strong preference for a levy regime that is simple to administer.

Objectives of the cost recovery proposal

Subject to the consultation on proposed activities as required under s143(2) and (3), the objectives of this cost recovery proposal is to establish a levy setting regime that funds Fire and Emergency to maintain its current level of service, in a manner that:

- Finds an appropriate balance between the principles of Equity and Universality by:
 - sharing the cost of undertaking Fire and Emergency activities between policyholders in line with their benefit from the potential to use Fire and Emergency services; while

⁶ A principle is a general rule that should be used to guide cost recovery design, a feasible option must meet the stated principles. An objective is more of a goal that a specific cost recovery proposal should meet, the recommended option does not need to meet all of the objectives.

- minimising the potential to create disincentives to enter into insurance arrangements; and
- Is simple to understand, implement and administer.

There are trade-off considerations to be made within the approach outlined above. For example, there are inherent constraints in an insurance-based levy system. While all New Zealanders receive the potential benefit of Fire and Emergency services, it is funded only by those who have insurance policies that are subject to the levy. This shifts the system away from the Universal and Equitable principle. To mitigate this, we have proposed an approach which should promote potential uptake (improve universality) by slightly decreasing equity.

Limitations

In determining an appropriate methodology for establishing a levy across policyholder groups, in accordance with the principles in the Act and with government guidelines, a number of decisions had to be made to address inherent limitations on giving effect to the statutory principles. These include:

- *Tension between universality and an insured property-based levy mechanism*

The universality principle within section 80 of the Act establishes that Fire and Emergency's costs are generally shared among all who benefit from the potential to use its services. However, a levy regime based upon a contract for insurance enables people who do not have insurance to avoid paying the levy while still receiving the potential to benefit from using Fire and Emergency service.

- *Tension between equity and a uniform levy for motor vehicles*

The equity principle within section 80 of the Act establishes that policyholders should pay levy at a level commensurate with their use of, or benefit from the potential to use services and with the risks associated with the activities that policyholders carry out. However, a uniform rate for motor vehicles does not enable any differentiation between different vehicle types or any risks arising from how they are used. While Fire and Emergency's response for most motor vehicles is likely to be relatively consistent across vehicle types, in some instances the activities that they are used for may give rise to a greater level of risk and increase the potential to benefit.

- *Unavailability of data or a proxy for contribution to risk*

While the equity principle in section 80 highlights that policyholders should pay levy at a level commensurate with the risks associated with the activities they carry out, the ability to differentiate policyholders on the basis of risk is limited. To deliver on the equity principle would require detailed commercially sensitive information at an individual policyholder level, and a level of interpretation and quantification of these inherent risks by insured property type. Fire and Emergency holds historical information relating to incidents, and some policy data from insurers, but they do not necessarily align with risks or sectors. This significantly hinders any attempt to develop a risk-based differentiation in levy setting.

- *Incident data as a proxy for use of services*

Fire and Emergency collects information on every incident that it attends. This incident data has been used as the basis for allocating costs into policyholder groups and is acting as a proxy for use, or benefit from the potential to use Fire and Emergency services. There are

limitations in this approach, where historical patterns may not represent future activities, but it is the best available proxy to use for cost allocation purposes.

- *Sum insured as a proxy for benefit*

The determination of the meaning of benefit under section 80 of the Act has numerous potential interpretations, from an input/output basis (ie. the policyholder can benefit from Fire and Emergency attending an incident) to an outcomes basis (ie. the policyholder has the potential to receive a unique economic benefit from Fire and Emergency services) with variances on those themes when adjusting for specific risks and potential scenarios. For levy setting purposes, we have assumed that the sum-insured value acts as a proxy for benefit. In some cases, the sum-insured may reflect underlying levels of risk for the property and higher value or larger properties requiring a more extensive response may have higher value sums insured. In other cases, sum insured as a proxy for benefit is limited as the level of sum insured reflects other factors such as affordability of insurance and the policyholders tolerance for self-insurance.

- *Sum insured vs indemnity*

There is potentially an issue around the impact of shifting towards a sum insured regime, away from indemnity values.⁷ It is unclear if this has any impact on revenues or whether those impacts are material on collections. There is some risk of over collection, as indemnity values are lower than sum insured, but the industry has suggested that most policies are set on replacement values – and thus unlikely to be materially different from the proposed regime for determining a levy rate.

⁷ Under the revised Fire and Emergency Act the levy is based on sum insured values and not indemnity values. The reason for this is that insurance policies are generally moving towards sum insured rather than indemnity values (under policies that are based on indemnity values the insurer agrees to compensate the insured for actual loss suffered, rather than a specific dollar amount)

The level of the proposed levy and its cost components (cost recovery model)

Design of cost recovery charges

The procedure that must be used in developing the regulations is outlined in section 142 of the Act. This includes:

- that in at least every third financial year the Minister must estimate the net costs for an upcoming period
- determine the portion of net costs for the period that are to be met by levies

Taking into account:

- an estimate of the total number of motor vehicles in respect of which the levy is payable
- an estimate of the total sum insured for property insured under contracts of fire insurance
- an estimate of the total amount of exemptions and waivers from the payment of the levy
- any amount in a preceding period by which actual levy income exceeded or was less than the actual net costs.

The methodology used to design of proposed levy regime involves three distinctive components that are aligned with meeting the requirements of section 142 and 143 of the Fire and Emergency Act:

*Step 1: **Determining the future costs and revenue needs*** of Fire and Emergency for the three-year period of the levy

Step 2: The transparent **allocation of costs to activities** to ensure costs are allocated correctly to different policy holder groups, and factors in any decisions that the Government has made on policy holder groups that are exempt from the levy (see Appendix D)

*Step 3: **Determining the proposed levy rates*** for different policy holder groups.

Step 1: Determining the future costs and revenue needs

Fire and Emergency has undertaken a review of its revenue forecasts through to 30 June 2029. The forecast for revenue needs to include and consider:

- the cost of the NZPFU settlement
- increase in the Transitional Levy rate of 12.8% on 1 July 2024 and repayable Crown Loan to fund the NZPFU settlement (with associated interest charges)
- levy base growth assumption of 2.7% per year based on historical trends for the period 1 July 2026 to 30 June 2029
- one-off increase in the levy revenues of 5.2% on 1 July 2026
- wage and cost inflation based on contract commitments and Treasury forecasts

- revised capital programme (\$2.9 billion over 20 years). Capital expenditure is currently \$74 million in 2022/23 but is expected to rise to \$123.6 million in 2028/29 to respond to asset deterioration. This capital expenditure is funded from operating surpluses from levy payments and any reserves.

Appendix D provides a table of the forecast costs for the levy period. The proposed changes for the 2026 to 2029 period will achieve a 5.2% increase in levy revenue requirements in 2026 over projected revenue from the transitional levy in 2025.

The forecast revenues reflect the projected costs of delivering the section 11, and section 12 where we have the capacity and capabilities to do so, activities (as outlined in the Status Quo section of this document).

Most of Fire and Emergency expenditure is in areas that are non-discretionary. The current network of fire stations and the numbers of fire appliances reflect the performance targets that are outlined in the Statement of Performance Expectations and ensure our ability to respond locally to significant emergencies. Any opportunities for cost savings arising from the station network and the placement of fire appliances would be likely to impact on these performance expectations. Further work is being undertaken to fully understand what potential impacts would be, and for the purposes of this levy setting process it is prudent to hold these expectations constant.

There is little correlation between the level of activities performed and the cost of those activities, due to the need to maintain a level of readiness across our network. This means that as our activities, or the number of incidents, increase or decrease, there is a marginal impact on our costs, apart from specific costs relating to some incident types.

Financial projections

The following forecasts for Fire and Emergency’s operating position are based on the proposed 5.2% levy revenue increase over the 2026/27 to 2028/29 period.

An overview of Fire and Emergency’s forecast income and expenditure through to 30 June 2029 is provided in Table below:

Table 3: Fire and Emergency Forecast Net Surplus/(Deficit) 2022/23 to 2028/29 (GST excl)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Revenue	710	710	813	832	896	920	942
Expenses	737	763	784	820	843	854	874
Net surplus/(deficit)	(27)	(53)	29	12	53	66	68

While the operating position shows surpluses beyond 2024/25, these surpluses are needed for:

- *Loan repayment:* Pay back the \$74.4m loan, and associated interest, that Cabinet provided to Fire and Emergency to meet the higher costs arising from the NZPFU settlement.
- *Capital expenditure:* There is an ongoing programme to bring Fire and Emergency fire stations up to an acceptable standard, and to replace the vehicle fleet. During the levy period, we plan to invest \$327.0 million on our capital programme over the levy period to remediate and where necessary replace fire stations and replace fire appliances. All capital costs are funded from revenues.

Table below provides a high-level view on projected cash flows over the levy period.

Table 4: Forecast cash flows from 2026/27 to 2028/29 (GST excl)

	2026/27 \$million	2027/28 \$million	2028/29 \$million
Opening cash and cash equivalents balance	115	50	58
Receipts from Levy	783.	893	917
Receipts from other revenue (incl. interest)	19	19	18
Operating expenses	(763)	(781)	(800)
Purchase of property, plant and equipment and intangible assets.	(91)	(112)	(124)
Repayments of capital injection	(8)	(9)	(9)
Interest paid	(5)	(3)	(2)
Closing cash and cash equivalents balance	50	58	58

Within the above forecasts there are some pressures or risks that are not funded:

- *No increase in funding to respond to increases in significant incidents.*

While the increase provides the ability for us to compensate volunteers for long duration events, there is a risk that we will see higher costs from increased use of helicopters for bushfires for extended periods arising from more of these events happening due to climate change.

- *No funding for the implementation of the Climate Response Plan*

The Government has made commitments under its Carbon Neutral Government Programme. While Fire and Emergency may need to fund carbon offsets from 2025 and has taken some proactive action to manage these future costs, there is no additional funding provided in the forecasts for the higher costs of replacing fire appliances with electric or hybrid vehicles once they come available.

Alternative Levy Revenue Scenarios

In developing the proposed revenue increase, we considered the implications of a number of alternative revenue scenarios, including their impact on cash reserves⁸ needed to provide working capital, a liquidity buffer and cover for one significant adverse effect:

- Nil Levy revenue increase – assume no changes to levy revenue other than assumed levy growth of 2.7%
- 3.6% revenue increase – based on a projection that results in Fire and Emergency reducing its cash reserves so that they approach zero by 2030
- 5.2% revenue increase (proposed) – assumes that Fire and Emergency largely maintains its current service levels and a \$50 million cash reserve to address unusual and unexpected events if they arise
- 7% revenue increase – allows for an accelerated capital investment programme.

The implications of the different funding scenarios are outlined in Table 55 below, and the impact on cash reserves of the scenarios is provide in Table below:

Table 5: Implications of alternative levy revenue scenarios

Funding scenario	Implications
Nil levy revenue increase	<ul style="list-style-type: none"> • Forecast operating costs and capital expenditure cannot be funded • Cash reserves fall below \$50m reserve and \$0 in 2026/27 • Fire and Emergency would need to make significant savings, to avoid insolvency, with likely impacts on response times and performance targets <p><i>Option not recommended</i></p>
3.6% levy revenue increase	<ul style="list-style-type: none"> • Cash reserves approach zero by 2029/30, and would fall below zero in the following year. • Fire and Emergency would need to seek additional funding from Government following a long duration response to ensure organisation remains solvent <p><i>Option not recommended</i></p>
5.2% levy revenue increase	<ul style="list-style-type: none"> • Provides funding to provide sufficient reserves to finance long duration responses • Allows for advancement of non-discretionary priority projects • Funds current expected operational resourcing needs • Allows progression of the capital programme to replace and refurbish high priority asset and appliance needs <p><i>Recommended option</i></p>
7% levy revenue increase	<ul style="list-style-type: none"> • Would allow capital programme to be brought forward to ensure all vehicles are replaced within target timeframes • Would allow for more fire stations to have seismic issues to be addressed and to achieve minimum operational standards sooner

⁸ Note: Fire and Emergency has a policy of maintaining cash reserves of \$50 million. Of this, \$15 million is available so that if significant events arise, such as large multi-day bushfires, that are sufficient reserves available to finance hire of helicopters and other resources that are needed for these events.

Funding scenario	Implications
	<ul style="list-style-type: none"> • Would provide a buffer against rising capital costs <p><i>Option not recommended</i></p>

Table 6: Cash reserves under each scenario

Year	Fire and Emergency cash position			
	0% revenue increase \$million	3.6% revenue increase \$million	5.2% revenue increase \$million	7% revenue increase \$million
2026/27	19	41	50	61
2027/28	-19	34	58	84
2028/29	-65	20	58	101
2029/30	-118	4	57	118

Step 2: Cost allocation to policyholder groups

To ensure that the levies charged are consistent with the cost recovery principles that are established under section 80 of the Fire and Emergency Act, it is necessary to allocate these costs to different activities so they can then be apportioned to different policy holder groups.

The allocation of costs to policyholder groups involves allocation of direct costs (i.e. costs that pertain to the particular incident or activity that Fire and Emergency resources are responding to) and indirect costs (such as readiness costs in areas such as training and other areas that pertain to the Fire and Emergency resources being available and prepared for a response and corporate overheads).

The cost allocation model draws on data about operational incidents collected and recorded in the Station Management System (SMS). The SMS captures incidents Fire and Emergency attends. Not all Fire and Emergency work is incident-related such as risk reduction and fire prevention activity. Cost relating to these activities are attributed to cost activity groups directly where it is appropriate to do so, or as part of an overhead allocation exercise where direct attribution is difficult.

This approach assumes that where there is no direct cost driver to allocated costs to a policyholder group, incident data acts as the best available proxy to allocate costs in line with the equity principle. It provides an evidence basis for how Fire and Emergency services have been used historically by different policyholder groups, and assumes that this is reflective of the expected share of services in the future – the relative benefit from the potential to use Fire and Emergency services by policyholder group. There are limitations in this approach, where historical patterns may not represent future activities, but it is the best available proxy for use for cost allocation purposes.

The Fire and Emergency cost allocation methodology has four steps:



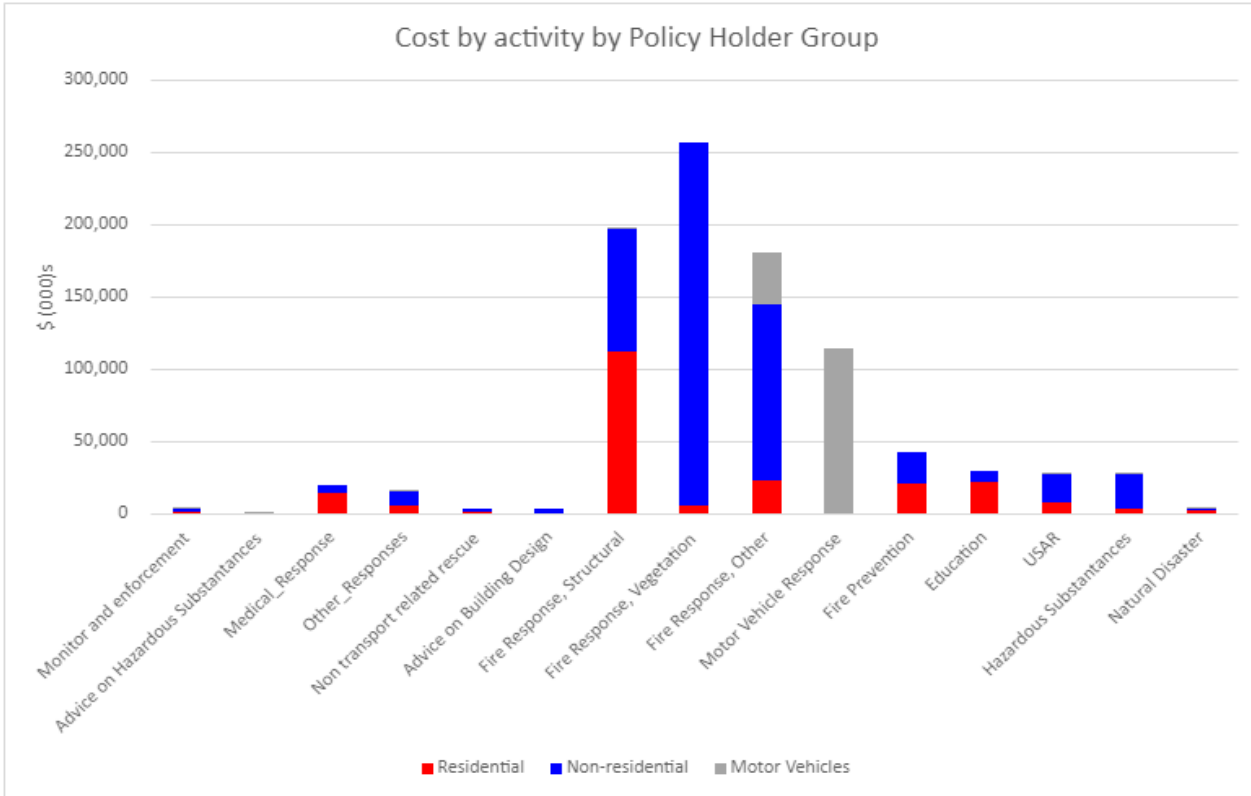
1. Categorise costs as direct cost, overheads, and response/readiness costs
2. Allocated the direct costs of responding to different set activities to Activity Groups
3. Allocates overhead costs (Readiness and Corporate) to Activity Groups
4. Allocating Activity Group costs pools to policy holder groups based on mechanisms based on incident-based allocation drivers or an apportionment determination.

The total revenue that Fire and Emergency proposes is required from each policyholder group over the three-year levy period is:

- Motor vehicles: \$438.1 million 16.27%
- Residential and personal property: \$645.6 million 23.97%
- Non-residential: \$1,609.8 million 59.76%

Appendix E provides more detail on the cost allocation model and provides three tables outlining the projected allocation of costs to Activity Groups and then the Activity Group costs into policyholder groups. This is represented in Figure 11 below:

Figure 1: Distribution of Activity Costs by Policyholder Groups



Step 3: Determining the proposed levy rates

For each of the three policyholder groups (residential, motor vehicles, and non-residential property), we have considered different levy structure options. Our option analysis has included the potential to differentiate within the core policyholder groups if it was allowed within the Act and was prudent and/or practical to do so.

We then use available data to apportion these total costs down to an individual policy holder level to determine an appropriate levy rate. We have relied on previous levy revenues, data provided by a major industry provider, and economic data for growth rates in determining the size of policyholder groups to undertake this analysis.

There is an option to introduce a uniform levy on all property (excluding motor vehicles). While this would be a simple option for policy holders to understand, we have excluded this as an option because we believe that by separately identifying property types within the Act, its intent is to consider these property types separately in the first instance if able to do so.

A uniform charge would also fail to address, and likely to conflict with, the equity principle. The nature and level of response to incidents at property types covered by the different policyholder groups can vary significantly by property type. A uniform levy would not distinguish between the level of use, or benefit from the potential to use, Fire and Emergency services by policyholder group, instead creating a standard charge based on each individual policy.

Estimated size of the policyholder groups

To determine the specific levy rate for an individual policyholder, we have projected the potential number of policyholders by policy holder group for each year over the levy period. The 2026/27 size estimates are provided below:

Table 7: Estimated size of policyholder groups (policy numbers) – 2026/27

Category	Sub-Category	2026/27 estimate
Residential & personal property	Home	1,858,673
	Contents	1,681,797
Motor Vehicle	Less than 3.5 tonnes	3,117,778
	More than 3.5 tonnes	187,332
	3rd Party	193,540
	Total	3,498,650
Non-residential		583,367

Note that, in relation to the data above:

- the numbers of commercial policy holders is an estimate based on impartial insurance data; and

- the determination of the proposed levy rates was not necessarily calculated on the basis of the total number of policy holders, but on the estimated value and distribution of estimated future policies in place.

Residential and personal property holders

Options

Fire and Emergency has explored the merits of following levy structure options for residential and personal property:

- *Remain consistent with the current levy regime with maximum caps at \$100,000 for home and \$20,000 for contents*
- *Increase the maximum cap on the home levy rate to \$300,000 and maintain the contents cap. This cap reflects the shift in the EQC cap from \$100,000 to \$300,000.*
- *Increase the maximum cap to \$625,000 for home and \$75,000 for contents (proposed). This option pegged the cap to the estimated median sum insured value.*
- *Increase the maximum cap to \$1,000,000 for home and \$75,000 for contents. This would peg the cap to a level around the upper quartile of policy holders.*
- *Introduce an uncapped regime.*

Alignment to principles

A purist interpretation of the cost recovery principles would recommend a cap as small as possible to ensure that every person is paying the same amount level of levy. This aligns to the Fire and Emergency initial response for residential house fires, where response activities are similar regardless of the size or value of the property.

However, while universality for levy payers is consistent between options, for all beneficiaries it is sub-optimal as the market penetration for the insurance industry shows that only 80%-90% of residential properties are insured. This means that there are beneficiaries of Fire and Emergency activities who pay no levy. To help ensure that the levy does not disincentivise the uptake of insurance coverage, there is a need to consider the affordability of the levy. In response the recommended approach is a higher cap to minimise the impacts on those likely to have less ability to pay for insurance coverage.⁹

Our proposed levy regime for residential and property seeks to find a fair balance between these two principles.

⁹ Australia National University (ANU) conducted a study in 2008 on the impact of fire services levies on insurance uptake and found statistically significant and negative relationship between insurance-based taxes and the take-up of both contents and house insurance and the level of cover purchased. Some initial analysis on Victoria, which removed the fire service levy in 2013, highlighted a subsequent increase in the total volume of insurance policies by between 3.0%-3.5%.

Table compares the relative differences between these principles.

Table 8: Relative comparison between Residential and Personal Property levy options

	Equity	Universality	Simplicity
Remain consistent	Most levy payers would pay a similar levy amount, which is consistent with similar Fire and Emergency incident response and services.	May disincentivise uptake of insurance policies.	Would require no changes to the current regime, excluding a rate change.
Residential levy rate to \$300k and maintain the contents cap	Most levy payers would pay a similar levy amount, while sharing a slightly greater share of the total relative cost which is broadly consistent with similar Fire and Emergency incident response and services.	May slightly disincentivise uptake of insurance policies, compared to alternative options, but remain largely similar to the current state.	Would require minor changes to the current regime, including a rate change and cap changes.
Residential levy rate to \$625k and contents cap to \$75,000	Approximately half of the levy payers would pay a lower levy rate, relative to the sum-insured value, while having the potential to use a similar level of Fire and Emergency services.	May remove some disincentives to uptake of insurance policies.	Would require minor changes to the current regime, including a rate change and cap changes
Residential levy rate to \$1 million and contents cap to \$75,000	Policies with a higher sum-insured value would pay more, while being expected to use a similar level of Fire and Emergency services.	Likely to remove a barrier to uptake of lower sum-insured value insurance policies, but may have a minor impact on higher value policies.	Would require minor changes to the current regime, including a rate change and cap changes
Uncapped regime	Policies with a higher sum-insured value would pay more, likely at a disproportionate level to the potential to benefit from using services.	Likely to remove a barrier to uptake of lower sum-insured value insurance policies, but may impact on higher value policies.	Would require the removal of caps, and other system changes would need to be determined.

Impacts and implications

The potential levy rates for residential and personal property that would exist under the different options are summarised in Table 2 below. Note that the same rate has been proposed for both residential property and personal property to minimise the complexity of the future regime.

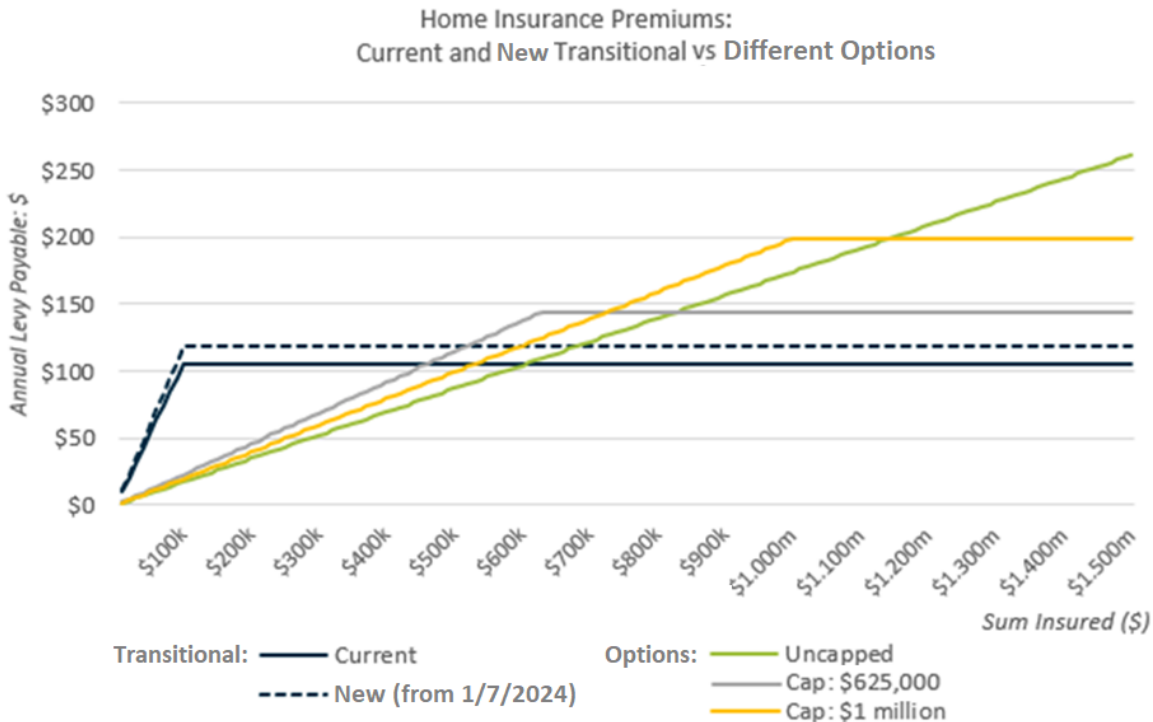
The rates were calculated by taking required revenue for the three-year period attributable to this policy holder group, then dividing it by the total projected in scope sum insured values across all relevant insurance contracts.¹⁰

Table 9: Potential levy rate options

	Transitional regime	\$300k Cap	\$625k Cap (recommend)	\$1m Cap	Uncapped
Cents per \$100	11.95	3.33	1.85	1.52	1.37

Relative to both the current and new transitional levy rates, many residential homes and contents policies will see a decline in proposed rates across each option. The principal driver of reductions is due to changing the weighting of levies from residential properties to motor-vehicles, largely due to a more equitable allocation of costs to activity groups and policy holder groups through incident data. Figure 2 below, shows the annual levy payable from different levy options, for home insurance policies only. This is illustrative of the relative impacts of the options, with a similar impact, but at lower levels, for contents-based policies.

Figure 2: Annual levy rate payable under alternative options



This highlights that, the higher the cap, the greater the share of the levy borne by those with higher paying policies. Selection of an appropriate regime requires careful consideration of

¹⁰ The sum of all sum-insured values for insurance policies less than \$625,000 (residential) and \$75,000 (personal) plus the number of insurance policies with sum-insured values equal to or greater than \$625,000 (residential) and \$75,000 (personal) multiplied by \$625,000 and \$75,000 respectively.

the legislated principles and an understanding of the trade-offs that may be required between them.

Motor Vehicle

Options

Section 141(2) of the Act states that an annual levy amount should be charged per vehicle. This restricts the ability to consider wider options or to differentiate between motor vehicles with the levy rate.

When developing the proposed option, we also considered a number of other allocation and attribution approaches:

- *Differentiating between vehicle size and type.*

Fire and Emergency considered whether it was appropriate to distinguish between the different sizes of vehicles in terms of the levies charged. This was determined as being not available as an option within the legislative framework.

- *Phased increases in the levy over time.*

The shift in costing methodology, and the changing classifications and proposed changes to exemptions, result in a significant increase in the levy rate. To reduce the impact of this shift, we considered options to reduce the impact by phasing in the increases over multiple levy periods. This would see Motor Vehicle policy holders bear less of the levy burden relative to their potential use of Fire and Emergency Services, with the difference likely to be borne primarily by the Residential policy holder group. This approach would not align with requirements for the setting of the levy that are set out in section 80 of the Fire and Emergency Act.

Alignment to principles

Table 10 below compares the proposed new rate to an approach that introduces the levy increase over multiple levy periods compared with the proposed levy rate which are making the changes in 2026.

Table 10: Relative comparison between motor vehicle levy options

Core principles	Proposed approach	Phasing in the levy increase
Equity	Motor vehicle policy holders would pay a levy rate commensurate with their potential to use Fire and Emergency service based on the activities they carry out.	A proportion of costs for Fire and Emergency activities relating to motor vehicle incidents (or its relative share or readiness costs) is borne by other policyholder groups.
Universality	A higher motor vehicle levy may result in greater underinsurance in the market. This means more people may benefit from services who have not paid a levy.	A smoothed approach may minimise the potential to adversely impact insurance uptake. This would lessen the level of people who benefit but do not pay.
Simplicity	There is no expected difference in the implementation of the levy under this option.	There is no expected difference in the implementation of the levy under this option.

Relative to the proposed option, phasing in the change over time is more likely to breach the equity principle, seeing Residential and Non-Residential policy holders share the burden for motor vehicle incidents. While a higher levy rate may impact on the number of policyholders, we have determined that the equity trade-off that will definitely occur under a phased approach takes higher precedent over a potential elasticity impact. The phased approach was discounted as an option.

Other options, changes and considerations

There were a number of key changes within the Motor Vehicle policy holder group

- The previous levy regime did not levy third party fire and theft policies. This has changed under the Act as such vehicles use similar levels of Fire and Emergency services as other insured vehicle types (improves equity)
- There are changes to the treatment of commercial vehicles to bring them in line with other motor vehicles for equity purposes. In 2021/22, vehicles over 3.5 tonnes contributed 44% of motor vehicle levy received by Fire and Emergency, despite comprising an estimated 5% of vehicles. This was due to these vehicles being levied at 10.6 cents per \$100 insured.

Impacts and implications

It is proposed that the fixed rate on motor vehicles regime be set at \$40.12 per vehicle per annum. This rate was calculated by taking required revenue for the three-year period attributable to this policy holder group, then dividing it by the projected number of motor vehicles policies in place over the levy period.

This will result in a shift from the transitional fixed rate of \$9.35 for domestic vehicles under 3.5 tonnes , and uncapped for commercial, towards a single flat rate of \$40.12 for each vehicle. The shift towards a universal fixed rate will see a large reduction in levy collected from commercial vehicles, offset by increased collections from domestic vehicles. Table provides a comparison between the current and proposed future rates.

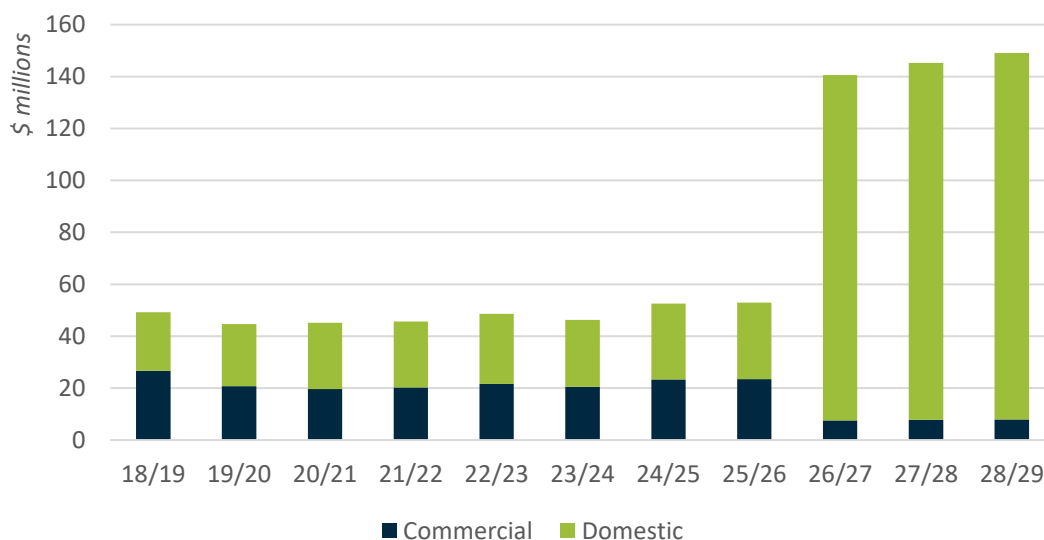
Table 11: Cost impacts for proposed motor vehicle levy versus current regime

	Transitional annual levy cost	Proposed annual levy cost
Motor vehicle, less than 3.5 tonnes (domestic), full cover	\$8.45 (flat rate)	\$40.12 (\$31.67 more)
Motor vehicle, less than 3.5 tonnes (domestic), third party cover	\$0 (not levied)	\$40.12 (\$40.12 more)
Motor vehicle, more than 3.5 tonnes (commercial), sum insured \$20,000	\$23.90 (no cap)	\$40.12 (\$18.92 more)

The largest driver of this increased cost attributable to motor vehicles is the activity-based costing that suggests motor vehicles are responsible for approximately 16% of Fire and Emergency activities, compared to the 7.3% revenue that is currently collected from motor vehicle policyholders. Without this increase arising from the activity-based costing methodology, the fixed rate for motor vehicles would increase to \$18.49 per vehicle per annum.

Figure 3 below provides an indication of both the shift in quantum of levy collected through the Motor Vehicle policy holders and the relative split between commercial and non-commercial arising from this change.

Figure 3: Contribution to Motor Vehicle Levy Revenue, split by domestic and commercial vehicles (\$ millions)



Non-residential property

Options

Fire and Emergency has explored the merits of the following levy structure options for non-residential property:

- *Maintain consistency with the transitional levy regime by applying an uncapped rate based on the sum insured value of a policy (proposed)*
- *Applying a differentiated rate based on the non-residential property type*
- *Applying a maximum cap based on the sum insured value across all non-residential property*

In undertaking this analysis, it is important to note a distinction between the potential variability in property types within this policyholder class, in particular compared to residential property. While a majority of residential property is relatively similar, and in general requires a similar response from Fire and Emergency when attending an incident, the variability between individual properties within the non-residential property category can be significant. Irrespective of how these properties may be differentiated – such as by size, value, use – within these sub-categories there may be significant variability in the services provided to respond to an incident.

There was consideration as to whether there should be either differential levy rates, or maximum caps in terms of what levy should be imposed at different property values or on different property types. We are aware that non-residential property is a wide category, and some sectors make the argument that uncapped rates are inequitable, either because of the type of property involved or its ability to benefit from Fire and Emergency’s services. While property size, value and type may have potential implications for risk and response, there

was insufficient information to inform any differentiation for levy purposes at present. Therefore we proposed not introducing a cap or creating different rates for non-residential property.

Alignment to principles

We have assessed each of these options relatively against the principles and wider considerations. Due to the nature of this policyholder group, where there is greater opportunity to make judgements on the nature of the varied insured property types, we believe that it is important to also included predictable as a relevant principle when assessing this policyholder group.

For the purposes of this analysis, we have noted that when considering universality as a principle, in a similar manner to residential and personal property, the cost of Fire and Emergency’s services are shared across all policyholders that may benefit from the use of those services. However, there are still uninsured properties that would potentially benefit from the use of these services. We do not have any analysis on the elasticity between the levy rate and policy uptake. We have only noted specific potential universality impacts in the analysis provided in Table 32 below, rather than the points above.

Table 32: Relative comparison between non-residential levy options

	A single uncapped levy rate	Differentiated Rate	Maximum Cap
Equity	This policyholder group is a wider category for property types, and uncapped rates mean that some lower risk properties which are less likely to receive or benefit from Fire and Emergency services may pay the same or more than others with a higher potential to benefit from the services. This also has the potential to shift policyholders towards a lower sum-insured value policy.	A differentiated levy rate, based on one or more factors, enables a more targeted approach to levy setting in line with a policy holders benefit from the potential use of fire and emergency services.	In the event that the sum insured value has a strong correlation to the potential to benefit from Fire and Emergency services, or a policyholders view on potential risks, then this option improves equity. However prior sector feedback suggest that this is not the case, and any cap may result in lower sum-insured properties sharing a greater levy burden commensurate to their potential use of Fire and Emergency services.
Universality	This may have universality issues if it disincentivises higher value, lower risk properties from having insurance policies in place.	This option should not directly impact on universality, but this may vary depending on the differentiating factors and specific levy groups. Note, some exclusions are already in place for some categories.	This may have universality issues if it disincentivises lower value, lower risk properties from having insurance policies in place.

	A single uncapped levy rate	Differentiated Rate	Maximum Cap
Predictable	This option is very predictable and requires no judgement on a policy-by-policy basis.	Provides less predictability due to the availability of alternative options. The regime would need to be clearly defined and robust enough to prevent potential gaming of the system. This option reduces Fire and Emergency's ability to predict the income that it may receive.	This option is very predictable and requires no judgement on a policy-by-policy basis.
Simplicity	This option is very predictable and requires no judgement on a policy-by-policy basis.	This option is likely to be extremely complex, and incur greater costs to run, in a number of ways: <ul style="list-style-type: none"> • Allocating costs to policyholder sub-groups at granular levels, and then predicting the size of those sub-groups to determine a fair levy rate • Creating and educating the sector about the classification and reporting requirements • Implementing and managing the system, from insurance providers making changes to their existing systems, and Fire and Emergency managing and monitoring it on an ongoing basis. 	This option would require some change for the sector but would be relatively simple to implement and manage as it is in line with the Residential and Personal property approach.

There is inherent complexity in undertaking any alignment to principles for the purposes of non-residential property, driven largely by the potential variability in the nature of the insured property, and the data and information limitations previously outlined. The analysis above highlighted the following potential complexities and implications:

- The scale of variability between the value of the property, and its sum-insured value. There is insufficient information to assess the scale of the variability between the sum-insured value and the indemnity or property value at an individual policy level to understand the potential size of any issue.
- The impacts of variability between the value of the property, and its sum-insured value. If there is significant variability between sum-insured and property value then it may have

implications for the analysis provided in Table 10 above, and change some of the assessment options.

Due to the inherent uncertainty in the above, we have relied primarily on using the value of the property as the basis for the assessment. This assumes that in general policyholders are making broader decisions on their insured properties as a whole, rather than a sum-insured value basis.

Justification for the proposed option

We propose applying an uncapped rate (option 1) based on the sum insured value of a policy for the following reasons:

- There were no fundamental differences between Option 1 and Option 3 from an equity perspective.
- To improve equity under a differentiated system (i.e. under Option 2), that does not create alternative inequities, it would require a strong and potentially complex classification system and understanding on how to apply it. There is insufficient information available to both create and calculate a fair system and levy rate, or to effectively monitor and manage it on an ongoing basis.
- In the absence of an understanding of, or a system to determine, risks on a property-by-property basis, the property value is likely to act as the better proxy of potential response for incidents. A maximum cap on sum-insured value would be likely to unfairly move the burden on to lower value properties, whether the relative gap between property value and sum-insured value is more likely to be smaller, which creates both equity and potentially universality issues. There are also an unknown number of properties that are insured for less than the full value of these properties. The wider distribution of property values within this policyholder group makes it difficult to determine a fair and appropriate cap.

Impacts and implications

It is proposed that the commercial levy regime will decrease from the transitional levy rate of 11.95 cents per \$100 insured, in 2024/25 – 2025/26, to 11.51 cents per \$100 sum insured in 2026/27.

The rates were calculated by taking required revenue for the three-year period attributable to this policy holder group, then dividing it by the projected sum of sum-insured values across non-residential insurance contracts over the levy period.

This decline is due to the assumption that the leviable base of commercially insured properties will grow at a significant rate over the coming years, equivalent to nominal GDP, and almost 30% higher than it currently is.

Other Considerations

Availability of information

The level of information that is collected on individual properties relating to policyholders is limited, making it difficult to both determine potential levy regimes and calculate the likely impact. This reduced certainty creates potential fiscal risks to Fire and Emergency if it is unable to accurately predict the future levy revenues and hinders the ability to provide guidance and understanding across the sector of a proposed change.

Overcollections

Fire and Emergency has previously agreed to allow for an expected 2.7% increase in the levy base over transition period.

Similarly, if the issue of shifting from indemnity versus sum insured policies proves to be material, Fire and Emergency can set rates that return excess revenues to policy holders from 2029/30. However, the extent of over/under collection will be unknown until levy rates are finalised and data is received during the levy period.

Overview of the proposed levy rates for different policy holder groups

Table 4 below provides an overview of the proposed levy rates for different policy holder groups and shows how the levy has changed since the establishment of Fire and Emergency in 2017.

Table 4: Overview of proposed levy rates

	Transitional levy (1 July 2024 to 30 June 2026)	Proposed Part 3 levy (1 July 2026 to 30 June 2029)
Insurance for residential buildings and personal property	11.95c per \$100 insured Insured amounts capped at: Buildings \$100,000 Personal property \$20,000	1.85c per \$100 insured. Insured amounts capped at: Buildings \$625,000 Personal property \$75,000
Insurance for motor vehicles (less than 3.5 tonnes)	\$9.53 (flat rate for each motor vehicle)	\$40.12 (flat rate for each motor vehicle)
Insurance on other property	11.95c per \$100 insured. No capped insured amount	11.51 cents per \$100 insured. No capped insured amount.

The impact of the Part 3 levy proposals will differ according to the circumstances of different policy holder groups. However, these impacts need to be seen alongside expected larger increases in insurance premiums charged by the insurance industry.

Some sectors are more likely to be impacted than others. We are aware that in past consultations, such as for the transitional levy increase, some sectors have pointed to current low rates of insurance coverage and that increases in the levy, alongside expected increases in premiums, will act as a disincentive to insure. One of the purposes of the consultation on the proposed Part 3 levy is to gather further information on impacts on New Zealanders, which will help inform ministerial decision making.

Consultation

Fire and Emergency have prepared a consultation document that presents the options discussed in this interim CRIS. This document is intended to be published on Fire and Emergency's website, along with this CRIS and a simplified summary (to be produced in a

number of languages and alternate formats). Non digital copies of these documents will be available on request.

Pending Cabinet decisions on timing, public consultation is proposed for an eight-week period and is intended to generate information that will support advice to Minister on the proposed new levy regime including generating information required under section 142(4) of the Act.

During the consultation period we will run meetings to talk to the public (as a proxy for residential and motor vehicle insurance policyholders) about what we are proposing. These hui will be both online and in-person. Details of these events will be provided on our website. We will leverage existing local relationships to engage with communities, along with social media and online advertising to widen our reach with the public.

Stakeholder engagement with the insurance sector and non-residential sector peak bodies will begin once we have approval to consult. We intend to run sector-specific sessions and individual meetings, as required; these will be both online and in-person. This engagement will be initiated through emails to our established database.

Engagement with Māori and Iwi will be managed through existing local relationships. We will also revisit hui held by DIA for the exemptions process, where we made commitments to re-engage with meeting participants on this consultation.

Feedback from this consultation will be incorporated into the final CRIS and advice that will be provided to Cabinet, for decisions on the Part 3 levy.

Conclusions and recommendations

This CRIS supports the accompanying Discussion Document that argues for recommended levy rates that are outlined below.

Table 5: Recommended Part 3 levy by policy holder group (GST excl)

Policy Holder Group	Proposed Part 3 levy (1 July 2026 to 30 June 2029)
Insurance for residential buildings and personal property	18.5 cents per \$100 insured. Insured amounts capped at: Buildings \$625,000 Personal property \$75,000
Insurance for motor vehicles	\$40.12 (flat rate for each motor vehicle)
Insurance on other property	11.51 cents per \$100 insured. No capped insured amount.

The proposed levy rates result from the changes to the Fire and Emergency Act and the update in the allocation of costs to different activities and policy holder groups as outlined in this CRIS.

The proposed levy rates would result in a 5.2% levy revenue increase from 1 July 2026 that should provide sufficient revenue for the 2026 to 2029 period. This level of levy increase is required to ensure Fire and Emergency maintains an appropriate level of service.

The recommended levy rates are however subject to change following the consultation process outlined above.

Implementation plan

Changes arising from the implementation of the Part 3 levy will require regulations under the Fire and Emergency New Zealand Act. This will occur through standard regulation amendment processes and will require Cabinet approval. An updated CRIS will be prepared to accompany the final levy proposals after the completion of public consultation.

Any change to the levy requires system changes for both Fire and Emergency and the insurance sector (the insurance sector calculates and collects the levy from insurance policyholders on behalf of Fire and Emergency). It is critical that both organisations have enough time to carry out necessary updates to their systems to enable the new levy amounts to be collected.

Fire and Emergency will provide updated guidance on the new levy rates to support stakeholders to understand the change.

We have been advised that the time required by the insurance sector to implement the regulations, and adjust levies charged to policy holders, is 18 months.

Monitoring and evaluation

Existing monitoring and evaluation will be used to monitor and evaluate this change. Fire and Emergency provide regular performance updates to the Department which will provide information as to whether the intended effects of this change are occurring. These performance updates include:





- Quarterly financial reports
- Statement of Performance Expectations. Fire and Emergency's performance expectations for the period will need to be developed and agreed with the Minister.
- Annual report, including performance measures (for example, response times, speed to process fire permits, other organisational milestones)

As noted through this CRIS, there are several areas where there is imperfect information on insurance policy holder groups, especially in the non-residential policy holder group category. Through the consultation process for the proposed levy rates, we will continue to seek further information that can help inform decision making and can be used to monitor and evaluate impacts of change rates.

Review

The proposed levy will apply to the period 1 July 2026 to 30 June 2029. The Act requires the levy to be reviewed for every three-year levy period. Any information obtained during the ongoing monitoring and evaluation of the impacts will help inform advice for the following levy period beyond 2029. This review will need to include consideration of the aspects identified under section 142(4) of the Fire and Emergency Act.

Appendix A: Asset and Infrastructure Profile

Asset class	Net book value	Average CapEx pa / 20 years	Areas of planned expenditure over the period to 30 June 2029	Rationale for investment
 <p>Property 643 station sites</p>	\$946m	\$94m	Investment to bring the Fire and Emergency network up to a fit for purpose standard due to historic under-investment	Address stations where health and safety improvements are needed (eg to provide basic ablutions) and replacements/refurbishments over time ¹¹
 <p>Fleet 1,278 firefighting appliances</p>	\$180m	\$27m	Replace 50-60 fire trucks a year (total fleet 1280 appliances)	Aim to replace vehicles at 20-25 years lifespan to avoid equipment failure. (Currently not meeting target age for some vehicles – eg less than half of type 3 trucks, which are often used in main centres are under 20 years old). Risk of failure to respond, as fleet age rises
 <p>Equipment 129 types of asset Over 150,000 items</p>	\$51m	\$13m	Equipment expenditure covers everything that goes on fire appliances eg breathing apparatus, cutting equipment, hoses etc and personal gear for firefighters' uniforms etc.	Without this investment we would be unable to deliver frontline services. Equipment needs to be kept at high standard to enable firefighters to be effective and to keep firefighters safe
 <p>ICT 3,867 laptops ICT systems</p>	\$59m	\$11m ¹²	Computer licensing fees ICAD 111 system	Ongoing cost Upgraded system Improves communications for fire appliances and avoids reliance on

¹¹ As at early 2023, 47% of Fire and Emergency's fire station sites were assessed as in 'Fair' or worse condition, with 17% of fire station sites assessed as in 'Poor' or 'Very Poor' condition. Stations assessed as in 'Poor' or 'Very Poor' condition are characterised by significant wear and tear and will typically have building interior or building service issues that require attention (maintenance issues), coupled with several major building element condition issues e.g. roof, ablutions, electrics etc. requiring replacement. Sites categorised as in 'Poor' or 'Very Poor' condition have a much higher likelihood of element failure, e.g. water ingress, rusted or rotten fittings, loose railings, appliance door failure, mould, electrical safety

¹² It should be noted that consistent with changes in accounting treatment of ICT, most ICT expenditure is now classified as operating expenditure rather than capital expenditure.

			Public sector radio communication network	old technologies that are becoming redundant
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Appendix B: Policy holder Groups proposed to be exempt from the levy

The Government is considering a proposal to exempt fewer types of property from the Part 3 levy than the number of types currently exempt under transitional levy settings. This approach is intended to ensure the costs of funding Fire and Emergency will be shared as widely as possible by those who benefit from the potential to use our services. It is also intended to make administration of levy collection simpler wherever possible.

The following property types are proposed to be exempt from paying the Part 3 levy:

- New Zealand Defence Force property
- mines and tunnelling operations
- reservoirs, dams, drains or channels
- offshore installations
- cabling and pipelines on the sea floor, breakwaters, moles, and groynes
- art and collections held by cultural heritage bodies
- ships that are registered internationally
- aircraft that regularly fly international routes
- goods insured for import and export

The following classes of insurance are also proposed to be exempt from paying the levy, to prevent policyholders who take out these policies paying the levy multiple times on the same property:

- insurance for war and terrorism risks, where the property is also insured under an all-risks policy
- deductible buydown insurance
- insurance covering existing property as part of contracts works policy

Property types no longer exempt

It is proposed that, from 1 July 2026, levy will be payable on fire insurance for the following types of property that benefit from the potential to use Fire and Emergency's expanded services under the Act¹¹:

- transport infrastructure - roads, bridges, streets, paths, tunnels, railway tracks or poles
- hazardous substances
- retaining walls, fences, and walls
- swimming baths, water tanks, water towers, or septic tanks
- water reticulation pipes
- electric supply, telegraph or telephone pole, line, or cable
- livestock, growing crops, silage, or hay
- New Zealand ships (i.e. marine vessels of any size)
- aircraft insured for travel in New Zealand
- goods insured for transit within New Zealand
- forests not on Māori land - at the time the analysis in this document has been undertaken, decisions on whether or not to propose exempting forests on Māori land has not been made (additional consultation on this issue has been undertaken with Māori landowners, iwi and hapū following initial analysis of exemptions).

Appendix C: Other Operating Expenses – FY2023

Other expenses can be categorised as to whether the expenses are directly related to operating fire appliances, supporting stations, training; or are corporate costs; or are a mixture of corporate and operational expenses; or are accounting or audit expenses.

	Year ended 30 June 2023 (\$000)		
	Operational expenses (direct or supporting)	Mix of corporate and operational costs	Financial reporting and audit
Occupancy		30,238	
Fleet	27,043		
Professional fees and consultants		22,999	
Computer maintenance and support		21,757	
Clothing and other consumables	18,039		
Travel		13,312	
Communications		10,293	
Publicity and advertising		6,164	
Repairs and maintenance	4,927		
Insurance		4,885	
Grants	3,551		
Hire of aerial services	3,213		
Purchase of equipment <\$1,000	1,754		
Loss on disposal of property, plant and equipment	1,751		
Research and development	1,719		
Printing, stationery and postage			1,621
Auditors – Audit NZ fees for statutory audit			279
Other audit fees for other services			242
Remuneration of the Board		200	
Impairment of receivables			96
Auditors – Audit NZ fees for other services			0
Other expenses			1,666
Total other expenses	61,997	109,848	3,904

Appendix D: Net costs – 2026 - 2029

The table below shows the estimated net costs for our operations between 2026-2029:

We are currently updating our definitions of costs to provide frontline services to communities, costs of frontline enablers without which the front line services could not function, and corporate costs.

(\$ million excl. GST)	2026-2027	2027-2028	2028-2029	Total	% of Total
Operating Costs					
Salaries and Wages - Firefighter	337	354	368	1,059	39%
Salaries and Wages - Non-Firefighter	160	168	168	496	18%
Other Personnel*	35	35	35	104	4%
Information and Communications Technology	49	46	47	143	5%
Clothing & Uniforms and Operational Equipment & Consumables	35	39	40	113	4%
Fleet	31	32	32	95	4%
Building Occupancy	28	28	29	84	3%
Professional fees/Consultancy	26	24	25	75	3%
Finance Costs (Interest and Loan Repayments)	27	14	13	54	2%
Travel	16	16	17	49	2%
Other Expenses	14	14	14	42	2%
Volunteer Expenses	14	14	14	42	2%
Grants & Donations	12	12	13	37	1%
Insurance	6	6	6	17	1%
Total	788	800	820	2,409	90%
Capital Costs					
Capital - Property	47	63	73	183	7%
Capital - Fleet	27	28	28	83	3%
Capital - Equipment	11	11	11	33	1%
Capital - ICT	11	11	11	33	1%
LESS Non-Levy Revenue	(15)	(16)	(16)	(47)	-2%
Total	81	96	108	285	10%
Total	869	897	928	2,694	100%

Appendix E: Cost Allocations

Cost Allocation Methodology



Using a set of defined rules and assumptions, costs from the general ledger are allocated to one of three cost pools:

- Direct Costs
- Corporate overheads
- Response/Readiness costs

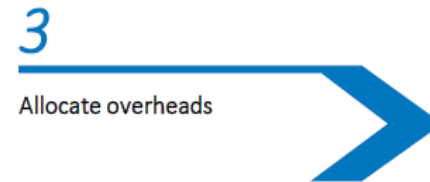
The allocation rules are based on cost type and specific business units, and apportion costs to a number of activity groups. Any costs remaining after apportioning Direct Costs and Corporate Overheads flow into the Response/Readiness cost pool – the cost of the standing army and the bulk of Fire and Emergency costs.



The Direct Cost pool is allocated to specific activity groups based on incidence response data. This calculation is based on the time spent responding to an incident type multiplied by an hourly rate of response. This hourly rate of response is determined by the total cost and the minimum shift staffing levels assumptions.

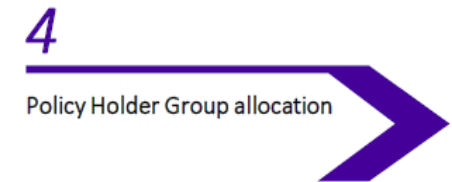
This data enables us to ‘cost the time’ spent on different types of incidents to allocate to activities.

After incident driven costs are removed from this pool, the remaining costs, reflecting time not attending an incident – a readiness overhead amount.



Corporate overheads and remain overhead relating to readiness are then allocated to Activities based on the proportion of direct costs as calculated in Steps 1 and 2.

With direct costs being attributed to Activities and non-Activity activities, overhead amounts are not fully reflected in Activity related activity.

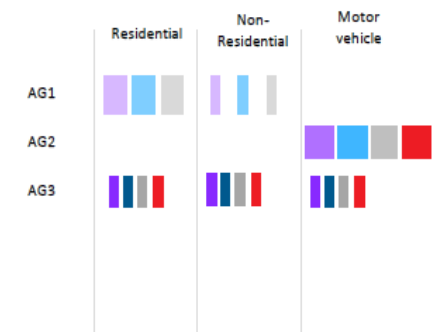
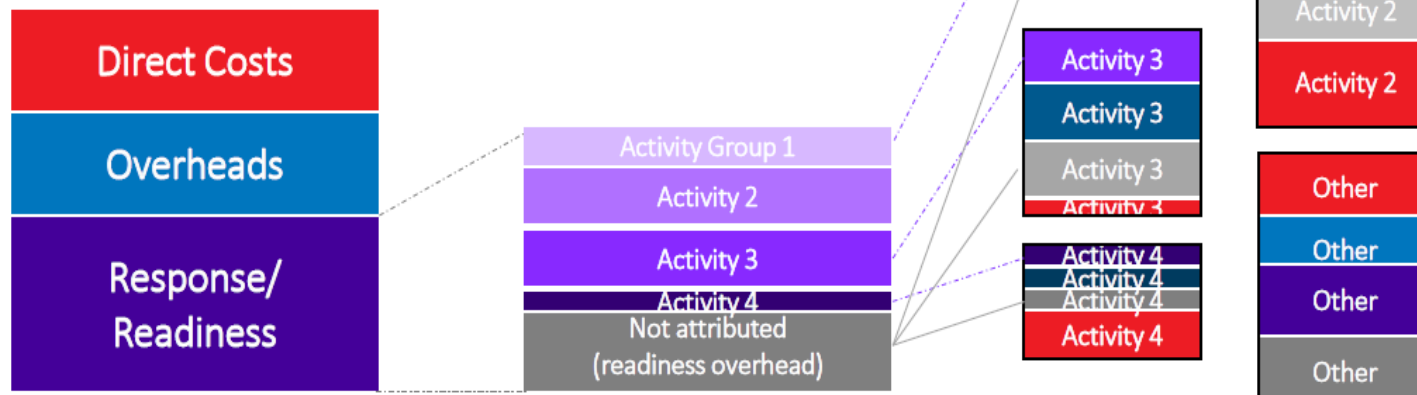


Each activity group cost pool is then attributed to one of three PHGs:

- Residential
- Non-residential
- Motor Vehicles

This allocation is made based on one of three allocation drivers, based on whether it is an incident or non-incident activity:

- Time spent on incident by property type
- An apportionment percentage based on historical trends or estimated effort
- Other similar activity group percentages where the first two options are not applicable.



Cost allocations to Activity Groups

	2026/27	2027/28	2028/29	3 year Total
	\$ (000)			
Monitor and enforcement	4,408	4,420	4,396	13,224
Advice on Hazardous Substances	582	588	590	1,760
Medical Response	18,861	19,571	20,021	58,453
Other Responses	14,909	15,602	16,060	46,571
Non transport related rescue	3,167	3,151	3,154	9,472
Advice on Building Design	3,171	3,196	3,185	9,552
Fire Response, Structural	181,577	189,976	197,090	568,643
Fire Response, Vegetation	243,405	250,374	256,857	750,636
Fire Response, Other	166,047	173,970	180,638	520,655
Motor Vehicle Response	106,915	111,048	114,783	332,746
Fire Prevention	42,244	42,669	42,632	127,545
Education	29,207	29,470	29,490	88,167
USAR	26,459	23,151	27,965	77,575
Hazardous Substances	23,671	25,686	27,266	76,623
Natural Disaster	3,881	3,974	4,028	11,883
Total	868,504	896,846	928,155	2,693,505

Activity Group costs apportionment to Policy Holder Groups

	3 Year Totals			Total
	Residential	Non-Residential	Motor Vehicles	
Monitor and enforcement	2,969	7,494	2,759	13,222
Advice on Hazardous Substances	396	999	368	1,763
Medical Response	42,182	16,270	0	58,452
Other Responses	17,775	28,778	18	46,571
Non transport related rescue	3,188	6,285	0	9,473
Advice on Building Design	0	9,552	0	9,552
Fire Response, Structural	325,260	242,880	501	568,641
Fire Response, Vegetation	17,116	733,521	0	750,637
Fire Response, Other	68,232	350,884	101,539	520,655
Motor Vehicle Response	0	0	332,746	332,746
Fire Prevention	63,772	63,772	0	127,544
Education	66,125	22,042	0	88,167
USAR	21,571	55,864	141	77,576
Hazardous Substances	8,623	67,930	69	76,622
Natural Disaster	8,348	3,528	6	11,882

Detailed Breakdown

	Residential PHG						Non-Residential PHG						Motor Vehicles PHG				
	Direct costs (including response)	Corporate Overheads	Readiness Overhead	Non-levy revenue	Total costs		Direct costs (including response)	Corporate Overheads	Readiness Overhead	Non-levy revenue	Total costs		Direct costs (including response)	Corporate Overheads	Readiness Overhead	Non-levy revenue	Total costs
	\$ (000)						\$ (000)						\$ (000)				
Monitor and enforcement	1,845	1,174	0	(49)	2,970		4,655	2,963	0	(124)	7,494		1,714	1,091	0	(46)	2,759
Advice on Hazardous Substances	246	156	0	(7)	395		620	394	0	(16)	998		228	145	0	(6)	367
Medical_Response	26,203	16,674	0	(694)	42,183		10,107	6,431	0	(268)	16,270		0	0	0	0	0
Other_Responses	11,046	7,029	0	(300)	17,775		17,884	11,380	0	(485)	28,779		11	7	0	0	18
Non transport related rescue	674	429	2,106	(22)	3,187		1,329	846	4,152	(43)	6,284		0	0	0	0	0
Advice on Building Design	0	0	0	0	0		5,932	3,776	0	(157)	9,551		0	0	0	0	0
Fire Response, Structural	67,844	43,168	215,008	(760)	325,260		50,661	32,235	160,552	(567)	242,881		104	66	331	(1)	500
Fire Response, Vegetation	3,585	2,281	11,361	(111)	17,116		153,627	97,760	486,894	(4,761)	733,520		0	0	0	0	0
Fire Response, Other	14,291	9,093	45,289	(442)	68,231		73,491	46,761	232,904	(2,272)	350,884		21,267	13,532	67,398	(657)	101,540
Motor Vehicle Response	0	0	0	0	0		0	0	0	0	0		69,686	44,342	220,852	(2,135)	332,745
Fire Prevention	38,888	24,750	0	134	63,772		38,888	24,750	0	134	63,772		0	0	0	0	0
Education	41,070	26,139	0	(1,084)	66,125		13,690	8,713	0	(361)	22,042		0	0	0	0	0
USAR	4,555	2,897	14,438	(319)	21,571		11,796	7,503	37,391	(826)	55,864		30	19	94	(2)	141
Hazardous Substances	1,807	1,150	5,727	(60)	8,624		14,236	9,057	45,112	(475)	67,930		14	9	46	0	69
Natural Disaster	5,189	3,302	0	(142)	8,349		2,193	1,396	0	(60)	3,529		4	2	0	0	6
Total	217,243	138,242	293,929	(3,856)	645,558		399,109	253,965	967,005	(10,281)	1,609,798		93,058	59,213	288,721	(2,847)	438,145