Funding Fire and Emergency Services for all New Zealanders

Consultation on a proposed increase to the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial years

5 April 2023

Contents

What this consultation is about

Fire and Emergency New Zealand (Fire and Emergency) is looking for your input on our proposal to increase the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial years. An increased levy would cover a funding shortfall over this period so we can remain financially sustainable and meet performance expectations until a new levy system comes into effect in July 2026.

This discussion document:

1. provides an overview of what we do and how we are funded
2. outlines the financial pressures that Fire and Emergency faces over the 2022/23 to 2025/26 period
3. explains why we need to increase our funding in advance of planned changes to the levy system under Part 3 of the *Fire and Emergency New Zealand Act 2017* ('the Fire and Emergency Act' or 'the Act')
4. outlines our reasons for proposing an increase in the transitional levy over other approaches
5. sets out the increase we are proposing to the transitional levy rate so we can meet our funding shortfall until the levy system changes come into effect.

Later this year, Fire and Emergency will run another public consultation on planned changes to the levy system under Part 3 of the Fire and Emergency Act (see page 23, Appendix 3: How we are funded will soon change).

The need to increase the transitional levy to cover a funding shortfall is urgent and cannot wait until the new Part 3 levy comes into effect on 1 July 2026. This transitional levy consultation is therefore separate to, and does not include consideration of, Part 3 changes.

Background

Who we are

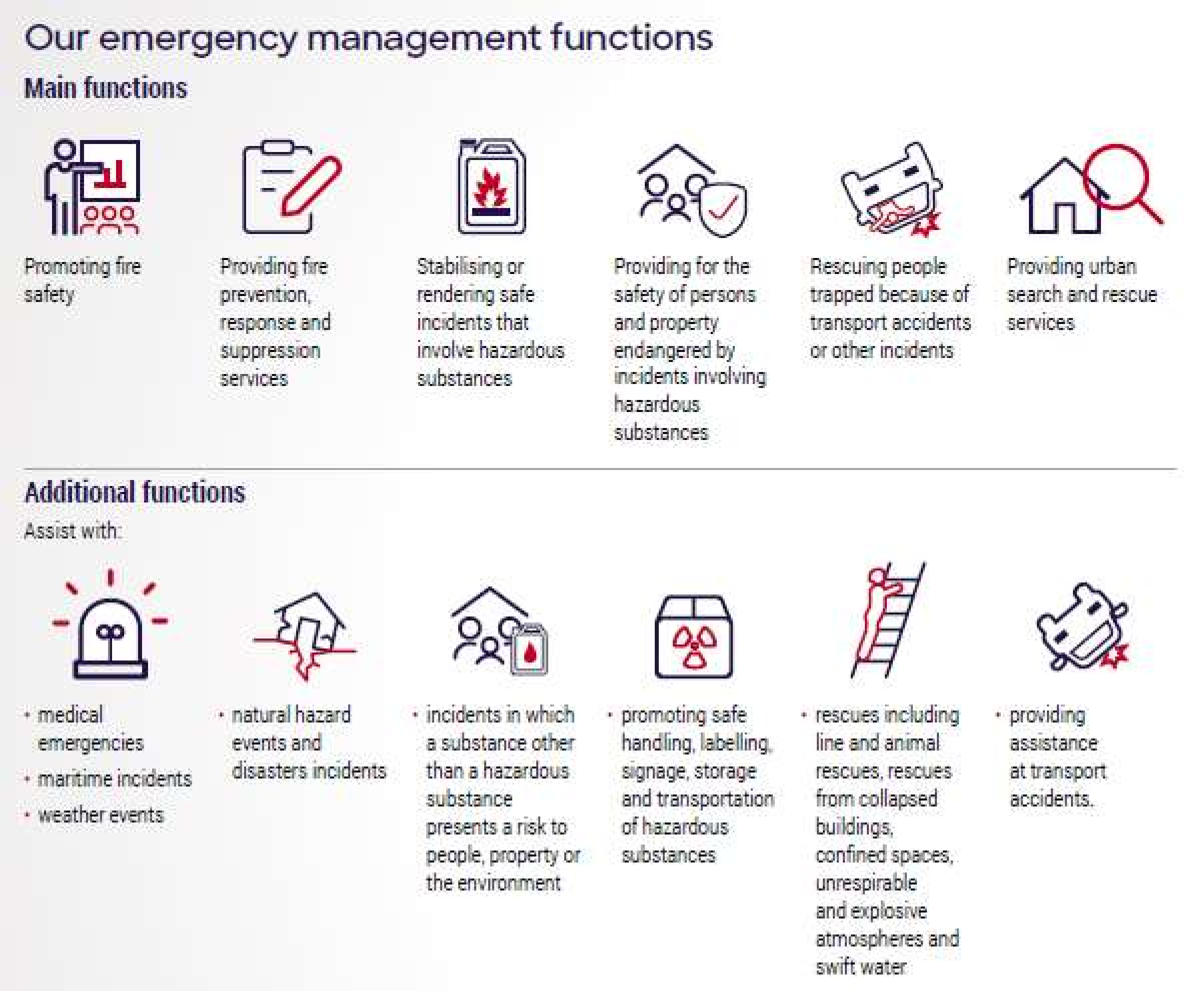
Fire and Emergency is the national risk reduction and response agency for fire. We're an essential service that New Zealanders also turn to for immediate response in a range of other emergencies – from chemical spills and car accidents to medical emergencies, rescues and severe weather events. We were established on 1 July 2017, when urban and rural fire services were brought together as a single organisation by the Fire and Emergency New Zealand Act 2017.

What we do

Fire and Emergency's principal objectives are to reduce the number of unwanted fires and the risk to life and property that those fires cause, and to protect and preserve life, prevent and limit injury, and prevent and limit damage to property, land and the environment in relation to our main and additional functions.

The Fire and Emergency Act mandates our two main areas of responsibility:

- our emergency management functions
- our role as a regulator.



Our role as regulator is focused on fire safety and fire-related offences. This includes:

- a range of activities including setting fire seasons and issuing fire permits
- a regulatory compliance function
- issuing infringement notices and prosecuting certain regulatory offences.

Fire and Emergency also has functions and powers under other Acts, such as providing readiness and response for Civil Defence emergencies and providing advice to building consent authorities under the Building Act 2004.

How we are funded

Most of Fire and Emergency's funding is from levies on property and motor vehicle insurance (97% of revenue). If you insure your house, contents, motor vehicle or commercial property, stock and equipment, your insurance bill includes a fire levy that goes directly to Fire and Emergency.

The monthly levy revenue we receive fluctuates, depending on the number and value of insurance policies taken out in a particular month.

We currently also receive a $10m annual 'Crown contribution' from the Government towards the public good component of services we provide. This is subject to the Government's annual Budget process.

Summary of the problem and our proposal

Our operating costs have increased, and we face immediate funding shortfalls

In December 2022, Fire and Emergency reached a settlement with the New Zealand Professional Firefighters Union (NZPFU) for a new collective employment agreement. Recognising the broader role that Fire and Emergency plays in emergency response, our negotiations with NZPFU focused on the breadth of activity that firefighters now undertake. The NZPFU settlement[1] increases firefighter wages and has a flow-on effect of increases for other Fire and Emergency staff. The settlement includes provisions to jointly consider issues of mutual concern, such as fleet, equipment, and frontline staffing levels. These will all result in increased costs that cannot be met within existing funding levels.

Fire and Emergency believes reducing costs in other areas, such as deferring capital expenditure or reducing other staffing costs, could undermine the terms and intent of the settlement and would impact Fire and Emergency's ability to deliver its core functions and meet the Fire and Emergency performance expectations agreed with the Minister of Internal Affairs[2].

The Government has acknowledged this funding issue and has agreed to provide Fire and Emergency with a loan of $75.4 million to be repaid over ten years. This loan ensures we have short-term funding over the 2022-23 to 2024-25 period – but Fire and Emergency still needs to find additional funding to repay the loan and meet projected annual deficits.[3]

The Government has also noted that additional funding would be required to adequately fund Fire and Emergency, and that the transitional levy rate would need to increase to provide this additional funding. No decisions have been made on new transitional levy rates.

We cannot wait until the new levy regime comes into effect

Further adjustments to the levy regime are expected in 2026/27 after the Part 3 levy comes into effect on 1 July 2026. However, it is not feasible to wait until 2026/27 to increase the levy rate; Fire and Emergency would already be in a negative cash position in 2025/26, which would mean imposing an even higher levy rate from 2026/27 to move out of deficit and rebuild its funding position, including repayment of the Crown loan.

If levy increases were deferred until 2026/27, Fire and Emergency would need to obtain an additional loan from the Government. Substantial rises in the levy would be needed from 2026/27 to replay these loans and restore the financial position, but in the long run would lead to higher than necessary surpluses.

The recommended approach is therefore one of increasing the transitional levy now to smooth out the impacts across the years and ensure minimum cash reserves are maintained.

Fire and Emergency needs to increase its revenue to fund the settlement and meet repayments of the Crown loan from 2025/26. To fund these costs and repayments, and remain financially sustainable, we propose to increase the transitional levy rates for a two-year period from 1 July 2024.

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[1] See https://www.nzpfu.org.nz/media/website_pages/resources/22-12-06-NZPFU-FENZ-TERMS-OF-SETTLEMENT.pdf
[2] See https://www.fireandemergency.nz/assets/Documents/Files/Statement-of-Performance-Expectations-2022-2023.pdf
[3] Pages 9-12 of this document set out the costs of operating Fire and Emergency and details of the projected funding shortfall.

How we propose to meet this shortfall

To provide the required additional funding, Fire and Emergency is proposing an increase to the transitional levy of 12.8% across all levied insurance policies for the 2024/25 and 2025/26 financial years. This increase includes an assumption of 2% levy growth each year to reflect increases in policy numbers and property values. Any increases to the transitional levy would apply until the new Part 3 levy comes into effect.

Pages 13-15 of this document set out details of the proposed increase to the transitional levy.

Timeline of key funding dates

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
1 July 2017: Introduction of transitional levy with passing of new Fire and Emergency Act	**1 July 2022:** NZPFU settlement takes effect First drawdown from Crown loan ($25.4m)	Second drawdown from Crown loan ($25m)	**1 July 2024:** Introduction of proposed increase to transitional levy Last drawdown from Crown loan ($25m)	Repayment of Crown loan starts	**1 July 2026:** Introduction of new levy scheme under Part 3 of the amended Act

We want to hear from you

We're looking for your input on our proposal to increase the Fire and Emergency transitional levy for the 2024/25 and 2025/26 financial years. The purpose of this consultation is to obtain information before reporting to the Government on the proposed levy rates for these two years.

We want to know:

1. whether you agree with the case for increasing the transitional levy to fund the increased costs outlined in this discussion document for the 2024/25 and 2025/26 years (and why/why not)
2. whether you agree with the assumption of projected transitional levy revenues based on an economic growth projection of 2%, across all policy holder groups. Do you consider this growth projection a realistic assumption? If not, is there an alternative you would recommend (and why)?
3. in what other ways do you think the levy could be increased to recover the additional costs? What are the benefits and downsides of your suggested approach(es)?
4. what impacts the proposed increase to the transitional levy will have on you (for example, insurance costs or choices, spending on other goods and services, or non-financial impacts you think are relevant)
5. whether there any other matters you consider relevant for implementing the proposed increase to the transitional levy (and why)

Feedback we receive from you on this consultation document will help to inform Government decisions about the proposed increase to the transitional levy.

How to respond to this consultation

Anyone can make a written submission. We have included questions in boxes throughout this document. The questions are also included in the Submission Form for you to complete on pages 17-19 of this document.

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

You can open and save your own copy of this document, make submissions on any of the questions you wish, and email or post your submission form to us.

Submissions can be emailed to: TransitionalLevy2023@fireandemergency.nz

Alternatively, submissions can be posted to:

Transitional Levy Consultation
Fire and Emergency New Zealand
PO Box 2133
Wellington 6140

See our website for more information: **www.fireandemergency.nz/about-us/public-consultation**

The closing date for submissions is Tuesday 2 May 2023.

How we will use your information

Fire and Emergency will analyse submissions and summarise the feedback, which will inform final proposals to Ministers about the proposed increase to the transitional levy.

Official Information Act 1982

Submissions are subject to the Official Information Act 1982 (OIA). Please set out clearly with your submission if you have any objection to any information in the submission being released under the OIA, and in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information.

Grounds for withholding information are outlined in the OIA. Reasons could include that the information is commercially sensitive or that you wish personal information, such as names or contact details, to be withheld. Please note that an automatic confidentiality disclaimer from your IT system will not be considered as grounds for withholding information.

We will take your objections into account when responding to requests under the OIA.

Personal information

The Privacy Act 2020 governs how organisations and businesses can collect, store, use and share your information. Any personal information you supply when making a submission will only be used for the purpose of assisting in the development of advice to Ministers in relation to the proposed increase to the transitional levy outlined in this document. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that we may publish.

The costs of operating Fire and Emergency

Prior to the settlement with the NZPFU, Fire and Emergency's projected year-end revenue and expenses broadly align, as shown below[4]:

Table 1 – Statement of Performance Expectations (SPE) revenue and expenses prior to NZPFU settlement

$ million	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Revenue	661.2	673.8	686.8	700.0	713.5
Expenses	657.6	663.7	681.9	690.3	703.1
Net surplus/(deficit)	3.6	10.1	4.9	9.8	10.4

The costs arising from the settlement are shown below, broken down into salary increases for NZPFU members and non-NZPFU members,[5] as well as increased job benefits for NZPFU members only. The costs increase each year because the salary increases from the previous years must continue to be met in the next year, as well as planned adjustments (either as agreed in the Collective Employment Agreement, or as planned for regular salary increases due to market increases).

Table 2 – Increased costs arising from salary increases and benefits for NZPFU and non- NZPFU members

$ million	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Salary increases NZPFU	28.9	43.0 Previous year plus 14.1	58.1 Previous years plus 15.1	67.4 Previous years plus 9.3	77.1 Previous years plus 9.7	87.2 Previous years plus 10.1
Benefits NZPFU	0.6	6.4	8.3	11.5	8.9	9.3
Salary increases non-NZPFU	0.0	5.9	12.1 Previous year plus 6.2	16.4 Previous years plus 4.3	21.0 Previous years plus 4.4	25.5 Previous years plus 4.5
Total	29.5	55.3	78.5	95.4	107.0	122.0

Additional detail on Fire and Emergency's operating expenditure for 2024/25 and 2025/26 is outlined in Appendix 1 on page 20.

[4] Page 43, Statement of Performance Expectations 2022/23; 2025/26 and 2026/27 data provided by Fire and Emergency
[5] To ensure equity across like roles under different CEAs.

We will be operating in deficit following the NZPFU settlement

The NZPFU settlement for the 2021-2024 Collective Employment Agreement has resulted in operational expenditure that is higher than budgeted in the current Statement of Performance Expectations 2022/23. In addition to higher costs for career firefighters as a result of the settlement, there are also implications for salary costs for other non-NZPFU employees and the increased expenditure goes beyond the end of the collective agreement, as shown in Table 3 below.

Table 3 – Fire and Emergency overall funding position after NZPFU settlement

$ million	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue	661.2	673.8	686.8	700.0	713.5
Expenses	713.0	713.9	740.1	748.4	766.8
Net surplus/(deficit)	(51.8)	(40.1)	(53.3)	(48.4)	(53.3)

To provide some funding for the NZPFU settlement in the short term, the Government agreed to provide a Crown loan of $75.4 million over the period 2022/23 to 2024/25. Government's expectation is that this loan will be repaid in full, with interest, from 2025/26 to 2032/33.

Reducing costs in other areas of operational and capital expenditure is not feasible

We have previously considered whether expenditure reductions could be used to meet the costs of settlement, cover the funding shortfall and maintain cash reserves. However, we do not consider this to be realistic. We have outlined these considerations below.

Reducing capital expenditure

We would need to reduce capital expenditure by at least $48.8 million each year, which represents 55% of the annual capital programme. This would involve:

- **Fleet - $13.4m** annual reduction in expenditure equivalent to the cost of **23 vehicles in total**
- **Property - $21.4m** annual reduction in expenditure which equates to **5 station rebuilds** - 2 Career station and 3 Volunteer station rebuilds against around 8 that would be built in a typical year
- **Equipment - $7.2m** annual reduction in expenditure which would delay equipment replacement programmes (including Incident Ground Control (IGC) radios, battery-operated hydraulic equipment and Breathing Apparatus (BA))
- **ICT - $6.8m** annual reduction in expenditure which would delay ICT programmes (including mobility roll-out) and replacement of ICT equipment in stations, regional offices and NHQ

Appendix 2 on pages 21-22 has more detail on the impact that reducing capital expenditure would have on our ongoing ability to safely deliver services, and why this has been discounted as an option.

Reducing operational expenditure

Reducing operational spending to offset the additional costs would require around 277 FTEs (full time equivalents) to be made redundant. This would be made up of 141 staff who provide response, readiness, reduction and recovery services, and 136 back-office staff who support these services.

This would also need to be supplemented with a reduction in other operating costs of $18.7 million per year. This would mostly come from a reduction in professional fees, contractors and other funding required to implement initiatives, as the loss of staff would slow down initiatives such as the Working Safely in Water and Long Duration Incident Payments projects.

These cost reductions would achieve $52.8 million per annum savings, but would require one-off redundancy costs of $16.2 million and, as previously highlighted, would have an impact on FENZ's ability to deliver its core functions.

Reducing capital and/or operating expenditure to the levels above would result in a network that was unable to service New Zealand communities and remain fit-for-purpose for our frontline responders. Fire and Emergency is already experiencing issues with achieving its current replacement program for vehicles under existing levy revenue.

Fire and Emergency believes reducing costs, such as deferring capital expenditure or reducing other staffing costs, could undermine the terms and intent of the NZPFU settlement. This includes a commitment to address issues relating to staffing levels, as well as fleet and equipment, through the establishment, development and operation of subject-matter relevant working groups that will report their recommendations to Fire and Emergency and the NZPFU.

We must hold minimum cash reserves to meet business requirements and fulfil obligations as a Crown entity

The Crown Entities Act 2004 requires Fire and Emergency to act in a manner consistent with our objectives, functions, current Statement of Intent, and current Statement of Performance Expectations. It also requires our Board to ensure that we operate in a financially responsible manner by prudently managing our assets and liabilities and endeavouring to ensure our long-term financial viability and act as a successful going concern.

This includes maintaining sufficient cash reserves. In terms of general our business requirements, Fire and Emergency needs to hold a minimum of $50 million cash reserves to provide funding for:

- working capital (money in the bank to fund day-to-day operations) of $25 million;
- 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[6].

In addition, in 2026/27 Fire and Emergency will experience a one-month delay in receiving levy income. This will happen when the new Part 3 levy comes into effect, enabling levy payments to be paid one month later than is currently the case under the transitional levy. This creates a cash flow issue for the month where levy revenue is not received, so an increased cash reserve is needed to cover costs during this month.

We have forecast that an additional $69 million of cash is needed to cover the transition to the Part 3 levy. This figure has been calculated by looking at both the forecast levy revenue for the 2026/27 financial year and historic proportions of levy revenue received in the month where no levy will be received.

[6] While most incidents we attend are handled by the people and equipment we already have, significant events such as earthquakes and major fires can result in high external costs – for example, helicopters with monsoon buckets to fight forest fires, or earth-moving equipment to clear debris.

Table 4 details Fire and Emergency's financial position based on the current transitional levy rate and levels of other expected revenue. This indicates that cash reserves fall below required limits from 2024/25 and by 2026/27 we will be below the required limit by $260 million (closing cash balance of ($201.4m) less ($50m) minimum cash reserves).

Table 4 – Fire and Emergency costs and funding position if no change in revenue or costs

$ million	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Opening cash balance	**198.5**	**142.0**	**107.9**	**42.0**	**(48.6)**
Current transitional levy funding	641.9	654.7	667.8	681.2	694.8
Crown contribution (subject to annual Government Budget processes)	10.0	10.0	10.0	10.0	10.0
Other income and cost recoveries	9.3	9.1	9.0	8.9	8.8
Cost of operating Fire and Emergency [7]	(713.0)	(713.9)	(740.2)	(748.4)	(766.9)
Add net capex (Capex less depreciation and amortisation)	(8.1)	(7.1)	(6.0)	(16.7)	(18.6)
Repay borrowings	(15.5)	(15.8)	(16.0)	(24.1)	(9.1)
Other balance sheet movements	(6.5)	3.9	(15.5)	(1.5)	(2.8)
Part 3 levy impact (deferring 1 month of cash)					(69.0)
Repayable capital injection loan from the Crown	25.4	25.0	25.0	-	-
Closing cash balance	**142.0**	**107.9**	**42.0**	**(48.6)**	**(201.4)**

As decreasing operational or capital spend are not viable options and Fire and Emergency needs to hold minimum cash reserves, the only remaining option is to increase revenue. We propose to increase revenue by increasing the transitional levy rate. The following section lays out our proposal for this increase.

Questions:

1. **Do you agree that reducing costs for the years 2024/25 and 2025/26 would compromise Fire and Emergency's ability to provide services to communities and result in a failure to meet its commitments under the agreement with the NZPFU?**

2. **Do you agree with the proposal to increase the transitional levy to fund the increased costs outlined in this discussion document for the 2024/25 and 2025/26 years?**
   Please provide a brief outline of your reasons for agreeing or not agreeing.

[7] This includes depreciation.

Proposed increased transitional levy rates

Fire and Emergency is 97% funded by levies on insurance policies where property is insured against the risk of fire and motor vehicle insurance. If you insure your house, contents or motor vehicle, some portion of your insurance bill goes to pay for Fire and Emergency.

Levies apply differently depending on whether the insured property is residential or personal property (such as house and contents); a vehicle; or non-residential or other property (such as commercial buildings, plant equipment, office equipment and stock for sale).

Table 5 below sets out the proposed rate of increase to the transitional levy for each of the policy holder groups. These rates would be in effect until Part 3 comes into effect on 1 July 2026. The current levies are outlined as a comparison.

Table 5 - Fire and Emergency's proposed rates of levy for the period 1 July 2024 to 30 June 2026

Category	Fire levy rate before 1 July 2017	Current transitional levy rate	Proposed annual transitional levy (1 July 2024 to 30 June 2026)	Difference
Insurance for residential buildings (insured amount capped at $100,000) and personal property (insured amount capped at $20,000)	7.6c per $100 insured	10.6c per $100 insured	11.95c per $100 insured	12.8% increase
Insurance for motor vehicles less than 3.5 tonnes	$6.08 flat rate per vehicle	$8.45 flat rate per vehicle	$9.53 flat rate per vehicle	12.8% increase
Insurance on non-residential and other property (no capped insured amount)	7.6c per $100 insured	10.6c per $100 insured	11.95c per $100 insured	12.8% increase

In setting these recommended rates, Fire and Emergency has considered:

- The estimated cost of operating Fire and Emergency's business as usual activities, excluding the NZPFU settlement
- The costs of the NZPFU settlement and flow on impacts
- Fire and Emergency's Statement of Performance Expectations for 2022/23[8]
- The Letter of Expectations from the Minister of Internal Affairs for 2022/23[9]

[8] See https://www.fireandemergency.nz/assets/Documents/Files/Statement-of-Performance-Expectations-2022-2023.pdf
[9] See https://www.dia.govt.nz/diawebsite.nsf/Files/Letter-of-Expectation/$file/Fire-and-Emergency-New-Zealand-LoE-2022.pdf

- The Crown loan of $75.4 million provided over the period 2022/23 to 2024/25, and the repayment of this loan. Cabinet's expectation is that this loan will be repaid in full, with interest, no later than 2032/33
- The current Crown contribution of $10 million per annum for public good activity
- Other revenue projections for 2024/25 and 2025/26

We have aimed to make this levy increase as straight forward as possible for insurers to implement, making no other changes to the transitional levy aside from the rate.

Our assumptions for the modelling of the levy increase include 2% levy growth per annum, to reflect an increase in numbers of policies and increasing property values. This will have different cost impacts for different levy payers, depending on their circumstances as outlined in Table 6 below.

Table 6 – Cost impacts for different levy payers

	Current annual levy cost	**Proposed annual levy cost**
Residential buildings worth less than $100,000 (example based on value of $80,000)	$84.80	$95.60 (an additional $10.80)
Residential buildings that are worth more than $100,000	$106	$119.50 (an additional $13.50 – the maximum $ increase for any residential building)
Personal property worth more than $20,000	$21.20	$23.90 (an additional $2.70 – the maximum $ increase for any personal property)
Motor vehicles (less than 3.5 tonnes)	$8.45	$9.53 (an additional $1.08 – the standard $ increase for all vehicles less than 3.5 tonnes)
Other property (example based on value of $1 million)	$1,060	$1,195 (an additional $135)
Other property (example based on value of $5 million)	$5,300	$5,975 (an additional $675)
Other property (example based on value of $10million)	$10,600	$11,950 (an additional $1,350)

Questions:

3. **Do you agree that applying the increase as proposed above is the simplest way to distribute the costs across different groups of levy payers?**
4. **If not, what alternative would you recommend?**
5. **Do you agree with the assumption that there will be growth in levy revenue of 2% per annum, to reflect inflation and increases to the number of policies, across all policy holder groups?**
6. **Do you consider this growth projection a realistic assumption?**
7. **If not, is there an alternative you would recommend?**
8. **Are there other ways you think the levy could be increased to recover the additional costs?**
9. **If yes, what is your proposed alternative and what are the benefits and downsides of your suggested approach(es)?**

Table 7 below illustrates how the increased transitional levy rates will lead to increased levy revenue in the first year, by policy holder group.

Table 7 - Forecast impact for FY 2024/25 of the proposed rates of levy on categories

Levy collected $ million	**Current levy forecast for 2024/25**		**2024/25 impact of proposed levy**		**Difference**	
	Amount of the total levy take	Percentage of the total levy take	Amount of the total levy take	Percentage of the total levy take	Amount	Percentage of the total levy take
Residential	217.9	33%	245.6	33%	27.7	33%
Non-Residential	402.8	60%	454.1	60%	51.3	60%
Motor vehicles (less than 3.5 tonnes)	47.1	7%	53.1	7%	6.0	7%
Total	667.8	100%	752.8	100%	85.0	100%

Question:

10. What impacts will the proposed increase to the transitional levy have on you? (For example, do you think it could impact your insurance costs or choices, spending on other goods and services, or non-financial impacts you think are relevant?)

Next steps

The purpose of this consultation is to obtain information before reporting to the Government on the proposed levy rates for these two years. Submissions will be analysed and feedback will inform final proposals to Ministers about any increases to the transitional levy. The Government will then decide on what the new levy rates will be. New regulations should then be drafted and approved, to take effect from 1 July 2024.

Cabinet decisions on changing the transitional levy are expected in July 2023 following public consultation.

We recognise that changes to levies, once agreed by Ministers, will require time for the insurance sector to update the rate in their systems. There may also be other implementation matters that the Government needs to consider. We want to know what this could mean for you, to inform the proposals and help with planning to implement the changes.

Questions:

11. **Are there any other matters you consider relevant for implementing the proposed increase to the transitional levy?**
12. **If yes, please provide details.**
13. **If you are an insurer, how much time would you need to implement this change?**

Submission form

Please use this form to make your submission on the proposal to increase the transitional levy on fire insurance contracts for the 2024/25 and 2025/26 years. **The closing date for submissions is Tuesday 2 May 2023.**

Submissions can be emailed to: **TransitionalLevy2023@fireandemergency.nz**

Alternatively, submissions can be posted to:

Transitional Levy Consultation
Fire and Emergency New Zealand
PO Box 2133
Wellington 6140

This submission was completed by:

Name	
Address	
Email	
On behalf of (if an organisation)	
Position (if an organisation)	

Please refer to page 8 of this discussion document for how we use your information, including considerations under the Official Information Act and Privacy Act.

☐ **Please tick here if you do NOT wish your personal information to be included in any summary of submissions that we may publish.**

Questions:

You do not need to respond to all our consultation questions. Feel free to limit your responses to those topics of most relevance or interest to you. **Please indicate any part of your submission that you believe should be withheld under the Official Information Act, and the reason(s) for withholding it.**

1. Do you agree that reducing costs for the years 2024/25 and 2025/26 would compromise Fire and Emergency's ability to provide services to communities and result in a failure to meet its commitments under the agreement with the NZPFU?

   Yes / No

2. Do you agree with the proposal to increase the transitional levy for the 2024/25 and 2025/26 years to fund the increased costs outlined in this discussion document?

   Yes / No

Please provide a brief outline of your reasons for agreeing or not agreeing:

3. Do you agree that applying the increase as proposed is the simplest way to distribute the costs across different groups of levy payers?

   Yes / No

4. If you answered **No** to question 3, please provide details of any alternative you would recommend and why you recommend it:

5. Do you agree with the assumption that there will be growth in levy revenue of 2% per annum, to reflect inflation and increases to the number of policies, across all policy holder groups?

   Yes / No

6. Do you consider this growth projection a realistic assumption?

   Yes / No

7. If you answered **No** to question 6, please provide details of any alternative you would recommend and why you recommend it:

8. Are there other ways you think the levy could be increased to recover the additional costs?

   Yes / No

9. If you answered **Yes** to question 8, please provide details of your proposed alternative and the benefits and downsides of your suggested approach(es):

10. What impacts will the proposed increase to the transitional levy have on you? (For example, do you think it could impact your insurance costs or choices, spending on other goods and services, or non-financial impacts you think are relevant?)

11. Are there any other matters you consider relevant for implementing the proposed increase to the transitional levy.

    Yes / No

12. If you answered **Yes** to question 11, please provide details of matters you consider relevant:

13. If you are an insurer, how much time would you need to implement this change?

Appendix 1: The cost of operating Fire and Emergency

Fire and Emergency's baseline costs for 2024/25 and 2025/26 are made up of the following:

Table 8: Fire and Emergency forecast operating baseline, after NZPFU settlement, for 2024/25 and 2025/26 (based on revised 2022/23 Statement of Performance Expectations)

$ million	**2024/25**	**2025/26**
Employee and volunteer benefits and expenditure	479.4	495.9
Finance	4.7	5.1
Fleet operating	27.8	30.3
Information and Communications Technology	37.9	38.9
Occupancy (Property maintenance, rates, power, etc)	28.6	28.9
Operational clothing, equipment, and consumables	30.8	30.0
Travel	12.0	11.5
Publicity and advertising (primary fire safety)	7.2	7.0
Depreciation and amortisation	82.1	71.4
Other	29.7	29.4
Total	**740.2**	**748.4**

Table 9: Fire and Emergency forecasted capital expenditure in 2024/25 and 2025/26

$ million	**2024/25**	**2025/26**
Fleet expenditure	25.0	25.0
Property Expenditure (including seismic strengthening and Christchurch rebuild)	38.1	38.1
ICT Expenditure	12.0	12.0
Plant and Equipment Expenditure	13.0	13.0
Total	**88.1**	**88.1**

Appendix 2: Further commentary on Fire and Emergency's capital programme

Fire and Emergency's fixed assets on our balance sheet are valued at approximately $1.35 billion, including over $1 billion of land and buildings.

Fire and Emergency operates a capital programme of approximately $80 to $90 million per year to maintain operational assets. Approximately $80 million relates to operational equipment, fleet and fire stations (including the Christchurch rebuild and seismic strengthening of stations).

The settlement terms of the NZPFU collective agreement are a further factor in our approach to not delay or rephase capital expenditure, as are health and safety considerations.

Deferral of the fleet programme

Deferral of the fleet programme would continue to increase the age of our vehicles beyond their target life of 20 to 25 years, leading to increased maintenance cost, the likelihood of breakdowns, and impact on vehicle service providers and vehicle suppliers. At present only half of our Type 3 fire trucks are within our target life span of 20 years. Deferring replacement would only increase the age of our fire trucks and increase our replacement and maintenance costs into the future.

We remain committed to fleet management to ensure our fleet provides the operational capability to deliver services to communities. We replace vehicles across their lifespan and upgrade these as required. Over the 2022/23 year, our focus includes:

- **Investment in new Type 3 fire trucks**. We have purchased four next generation Type 3 fire trucks. We expect these new fire trucks to be delivered in the 2022/23 financial year. We will evaluate their performance using trials and surveys before confirming our future supplier(s).
- **Investment in new aerial fire trucks**. We have a national fleet of 28 aerial fire trucks of various types. Our aerial fire trucks have a target life of 20–25 years and we need to replace some of our older aerial fire trucks in 2022/23. Work started in 2021 to procure five new heavy aerial fire trucks, which we expect to be ordered this year.
- **Introduction of electric vehicles, where appropriate.** The largest contributors to our carbon footprint include our fire trucks, our other diesel vehicles, air travel, electricity, helicopter usage and travel for incident response and training. We have 25 electric and hybrid vehicles and five electric vehicle charging locations and will continue to increase our electric fleet in 2022/23. We will continue to evaluate and optimise our fleet from an emissions perspective as part of our progress towards carbon neutrality and in line with the Government direction under the Carbon Neutral Government Programme.

The NZPFU settlement includes a commitment to address issues relating to fleet and equipment, as well as staffing levels, through the establishment, development and operation of subject-matter relevant working groups that will report their recommendations to Fire and Emergency and the NZPFU.

Deferral of the property programme

Deferral of the property programme would extend the operational life of buildings beyond their economic life and result in higher repairs and maintenance expenditure. Currently 27% of our stations are more than 50 years old. While the age of buildings does not necessarily determine their fitness for purpose, the functionality of 36% of our stations has been assessed as poor or very poor. Deferral of property expenditure would also impact on our programme of bringing a third of our property portfolio up to seismic standards to protect our people and ensure continuity of service delivery for our communities.

We also remain committed to completing the rebuild of 18 fire stations affected by the Christchurch earthquake in 2011, as part of the Greater Christchurch Rebuild programme. In the longer term, we will bring 90 percent of facilities in high-risk areas up to a seismic resilience standard 5 to ensure our facilities are prepared for earthquakes. We aim to complete this by June 2027.

Deferral of ICT expenditure

Deferral of expenditure on equipment, and information and communication technology (ICT) would delay equipment replacement programmes including Incident Ground Control radios, battery-operated hydraulic equipment, and breathing apparatus, as well as delaying ICT equipment in stations, region offices and in the National Headquarters.

Appendix 3: How we are funded will soon change

The Government is currently reviewing the way that Fire and Emergency is funded under Part 3 of the Fire and Emergency Act. When the Act came into force in 2017, a transitional levy was established to provide a stable source of funding for Fire and Emergency until the levy system under Part 3 of the new Act came into effect.

Part 3 of the Act has been under review by the Department of Internal Affairs since 2019 (the Fire and Emergency funding review[10]). This review has resulted in the Fire and Emergency New Zealand (Levy) Amendment Bill[11], which is now progressing through Parliament.

The aim of the Funding Review and the Amendment Bill is to make the Fire and Emergency levy regime simpler for people who pay levies through property and motor vehicle insurance. If passed, the Amendment Bill will result in changes to the levy regime from 1 July 2026.

In addition to this Bill, there will be regulations that set the levy rates from 1 July 2026 and detail who is exempt from paying the levy. Later this year, Fire and Emergency will run another public consultation on the levy rate and how it should be applied, before final decisions on the Part 3 levy rates are made.

The transitional levy will continue until Part 3 comes into effect.

[10] See https://www.dia.govt.nz/firefundingreview

[11] See https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_127132/fire-and-emergency-new-zealand-levy-amendment-bill