



# Wenita Forest Products Limited - submission on a proposed increase to the Fire Insurance Transitional Levy for FY2024/25 and FY2025/26

Submission to:

Transitional Levy Consultation

Fire and Emergency New Zealand

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## Introduction

Wenita Forest Products (Wenita) welcomes the opportunity to make a submission on the proposed increase to the Fire and Emergency transitional levy for FY2024/25 and FY2025/26. Forest fires are a critical risk for forest owners, so ensuring we have timely, effective and cost-efficient fire and emergency services is a high priority for Wenita.

### **Wenita Forest Products Ltd - Submitter**

Wenita Forest Products Limited, (Wenita), was established in 1990. We are the largest forest owner in Otago, directly employing 15 full time staff and well over 120 contractors, plus numerous service agents and suppliers. Wenita also manages large areas of forest in Otago and Southland on behalf of other forest owners.

Wenita was a founding member of the Otago Enlarged Rural Fire District in 2014 and we have worked closely with Fire and Emergency NZ - Region 5 (FENZ), since its inception.

Wenita has several partnership arrangements with FENZ, including: a Wenita/FENZ Forestry Services Agreement, the Wenita Fire Plan (updated annually), a FENZ Authorised Person (on staff), 48 fire trained silviculture contractors and several fire-trained staff.

Unfortunately, Wenita also has considerable experience in battling serious wildfires (at least 10 since 1995) and we also carry comprehensive forest fire insurance, so we believe we are well-qualified to submit on the proposal to increase the transitional fire insurance levy.

### **In-House Fire-fighting resources maintained by Forest Owners**

1. Wenita is one of many forest owners which continues to invest in its own fire equipment and trained manpower. It also carries comprehensive fire insurance, which is becoming more difficult and expensive to obtain.

2. Wenita's fire equipment, fire-trained contractors and staff are available to FENZ under a Forestry Services Agreement and these resources make up a significant portion of the available fire-fighting capability attending many rural wildfire events in Otago and Southland.
3. Wenita's continuing investment in its in-house firefighting resources is an example of the significant contribution that large forest owners make to the rural sector's overall readiness in terms of fire equipment and trained and capable firefighters and substantially extends the resources that FENZ has available to draw on for effective fire suppression.

## General Comments

4. Wenita acknowledges that FENZ's operational costs have increased due to the settlement reached with the New Zealand Professional Firefighters Union (NZPFU).
5. However, Wenita has concerns about the lack of clarity and FENZ's inability to explain what the current operational costs are being spent on and, what new operational costs are going to be incurred.
6. It is also very concerning to note the significant increase in FENZ operational costs since the 2017 merger of the rural and urban fire services without any apparent increase in the level of rural fire services.
7. Wenita notes that FENZ collects very detailed information on urban and residential properties involved in fires but doesn't do the same for vegetation fires and land use types involved, which leaves a significant gap in the ability to determine where fire event related costs lie. FENZ has previously admitted that "*Fire and Emergency does not record data specifically relating to plantation forests*". This information gap potentially fuels misconceptions that plantation forests pose the greatest fire risk and forest fires are the most expensive types of vegetation fire (even though many vegetation fires are on conservation land or start outside and move into plantation forest areas).
8. FENZ must start collecting more detailed information on land uses associated with vegetation fires to enable better informed and evidence-based decision making for designing future prevention programmes, better understanding land use risk, operational costs and for allocating costs.
9. As a significant rural landowner Wenita is concerned that rural land users are being burdened with costs for services to urban communities and non-fire operations and that the existing levy structure does not apportion costs fairly or equitably across the beneficiaries of FENZ services. For example, a large portion of FENZ's activities are not fire-related. Firefighters attend motor vehicle accidents, hazardous substance incidents and natural disasters, yet a significant portion of FENZ's revenue is sourced from levies on fire insurance.
10. Wenita contends that the government's contribution toward FENZ's revenue falls far short of the public-good benefit that FENZ delivers. We understand the government intends to contribute just \$10m (approx. 1.4%) towards FENZ's proposed new operational costs, which seems woefully inadequate, and we encourage FENZ to push-back on the government assessment behind this decision.

11. Wenita also contends that FENZ's proposed operational cost increases should be covered by an increased Crown contribution and not by an increase in the transitional levy.
12. Further, Wenita also proposes that the government contribution should be significantly increased when the transitional levy ends to reflect the public good benefit that is delivered by FENZ.
13. Despite the fire equipment, manpower, firefighting expertise, knowledge and experience supplied by the forestry sector, it is inadequately supported and underutilized by FENZ.
14. FENZ should consider implementing a series of independent expert reviews of vegetation fire response strategies, using domestic and international experts, to ensure it is applying international best practices and delivering its services as effectively and cost efficiently as possible. This is likely to identify savings without impacting operational effectiveness.
15. Continuing increases in levy costs will undoubtedly encourage forest owners to review their ongoing investment in the provision of in-house fire equipment and training, with ultimately negative outcomes for the rural sector's readiness and response capabilities.

## Consultation 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?**

Without knowing how current operational costs are being spent, what new operational costs are likely to be incurred and why operational costs have increased so much since the 2017 merger (see 5 - 7 in General Comments) it is difficult to have any sort of informed opinion about whether a reduction in fees for FY24/25 and FY25/26 would have any material effect on FENZ's ability to provide services. It might even force FENZ to use of existing resources more cost effectively.

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?**

No. While we acknowledge the unavoidable cost pressure that the settlement with the NZPFU and the proposed increased operational costs will have, we doubt the contributions from the existing levy and public-good benefit have been calculated correctly. It is difficult to accept that only 1.4% of public good will be derived from the critical and important work that FENZ delivers for all New Zealanders, and we cannot accept that levy payers should be called upon to subsidise the public good aspects of FENZ services. The government must contribute more equitably to represent the public good benefit of FENZ's services.

Wenita also notes the uncertainty surrounding the justification of the significant operational cost increases following the 2017 merger (more than \$200million) which ran contrary to the projected savings which supported the original FENZ concept.

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

No. It may appear to be the simplest approach, within the framework that currently exists, but as noted above in Q2 and in the General Comments, Wenita believes that the government should contribute more equitably to recognise the public good benefit of the critical and important work that FENZ delivers for all New Zealanders.

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

Wenita believes that an increase in the government contribution should cover the additional costs during the transition period to represent a more realistic public good benefit which is being delivered by FENZ. Further, a more equitable public good assessment should be made by the government (or better still, by a qualified independent) when the levy transitions.

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 – there will be some growth due to inflation and the number of policies but its difficult to know the exact number without having access to all the data.

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

No

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

A rolling average over a longer period of time (say 3-5 years) would provide a smoother increase. A cap of 5% per year might also be prudent given the rate of CPI increase seen in the last 2 years.

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

Yes

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).**

As noted in General Comments, an independent expert review of FENZ's operational response strategies should be undertaken to ensure that best practice and most cost-effective strategies are being applied to achieve the response objectives. This is likely to identify costs savings and inform rural fire training and capability development.

Also, as noted several times above, Wenita believes the government should increase its contribution to better reflect the public good benefit of the services that FENZ delivers. Wenita does not accept that the current government contribution of \$10 million (~1.4%) reflects the actual public good benefit and this should be urgently reassessed (preferably by a qualified independent).

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?)**

Forest fire insurance is already difficult to get and expensive, so any further cost increases will inevitably trigger cost/benefit reviews. Forest owners who insure and also invest in their own firefighting equipment and manpower will undoubtedly reassess whether they should continue to do both, with negative consequences if either fire insurance or in-house capability is dropped. Reducing the pool of fire-insured forests will reduce the contribution to the levy and reducing the forest-owned firefighting capability will reduce the resources that FENZ has available to draw on for effective fire suppression.

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

No

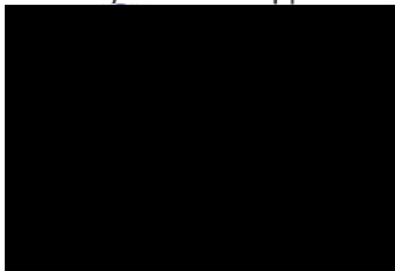
12. **If you answered Yes to question 11, please provide details of matters you consider relevant.**

Not applicable.

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

Not applicable.

Thank you for the opportunity to submit on this important issue.



CEO

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Email:

