



22 MAY 2024

Ms Rebecca Keoghan MNZM
Chair
Fire and Emergency New Zealand Board
PO Box 2133
WELLINGTON 6140

Rebecca.Keoghan@fireandemergency.nz

Dear Rebecca

Letter of Expectations 2024/25 for Fire and Emergency New Zealand

I am writing to convey my expectations for Fire and Emergency New Zealand (Fire and Emergency) for 2024/25. This letter replaces the previous letter of expectations (LOE) and needs to be considered alongside the enduring LOE for Crown entities, issued by the Minister of Finance and the Minister for the Public Service. Priorities should be incorporated into your planning, strategic direction, and accountability documents. In addition to the priorities set out in this letter, Fire and Emergency needs to be aware of and informed by any guidance or direction to Crown entities set by the Government.

Meeting Government priorities

Fiscal Sustainability Programme

As you will be aware the Government is making decisions to reduce public expenditure through its Fiscal Sustainability Programme and expects all public sector organisations, including Crown entities, to play a role in this.

Fire and Emergency should expect enhanced scrutiny of Crown funding and be able to demonstrate that Crown funds are being spent as efficiently as possible and are making a difference for New Zealanders. Furthermore, the payers of the insurance levy which provides the majority of funding for Fire and Emergency also expect prudent use of their levy contributions. I expect the Board to have a strong understanding of Fire and Emergency's overall operations and cost drivers. While ensuring the continued provision of its services, Fire and Emergency must determine strategies for managing cost pressures within current funding limitations and work proactively to identify opportunities for material savings and efficiency improvements. This will include evaluating trade-offs and understanding their consequences on operational capabilities.

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Financial management

The financial strength and stability of an organisation is a balance of readiness and investment, and I look forward to seeing the continued demonstration of strong and transparent financial management. I expect the Board maintain rigorous oversight of expenditures, and for Fire and Emergency to focus on initiatives with the greatest return for investment.

Within the context of the Government's fiscal aims, I expect that Fire and Emergency will work with the Department of Internal Affairs on the long-term capital needs of the organisation, as well as the ongoing operational requirements. This should include evidence-based decision making, strong asset management and planning, and the investigation of all funding and financing options for capital requirements over time.

Out of Scope

Yours sincerely



Hon Brooke van Velden
Minister of Internal Affairs

Copy to: Mr Kerry Gregory, Chief Executive, Fire and Emergency,
kerry.gregory@fireandemergency.nz
Mr Paul James, Chief Executive, DIA, paul.james@govt.nz



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13 June 2024

Hon Brooke van Velden
Minister of Internal Affairs
Parliament Buildings
Wellington

Dear Minister,

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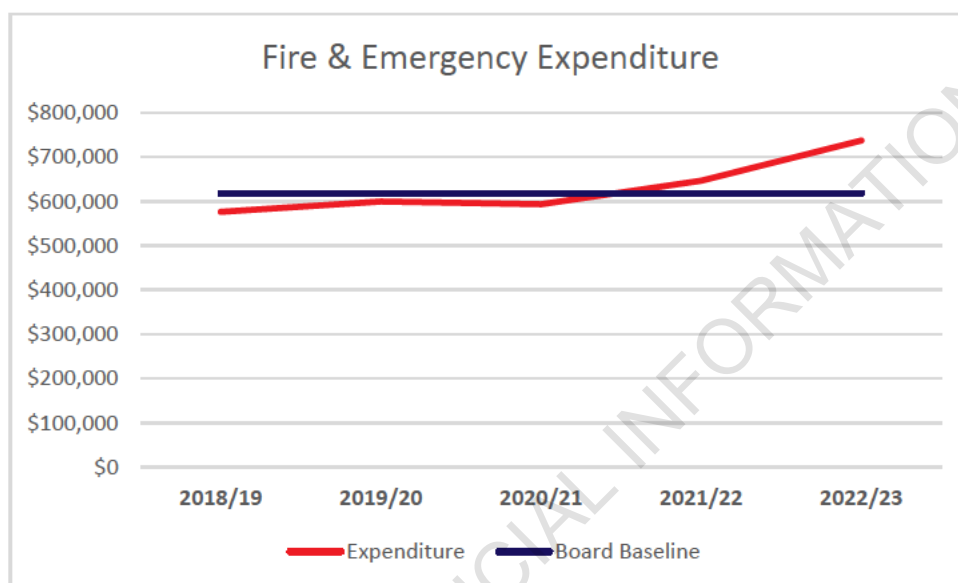
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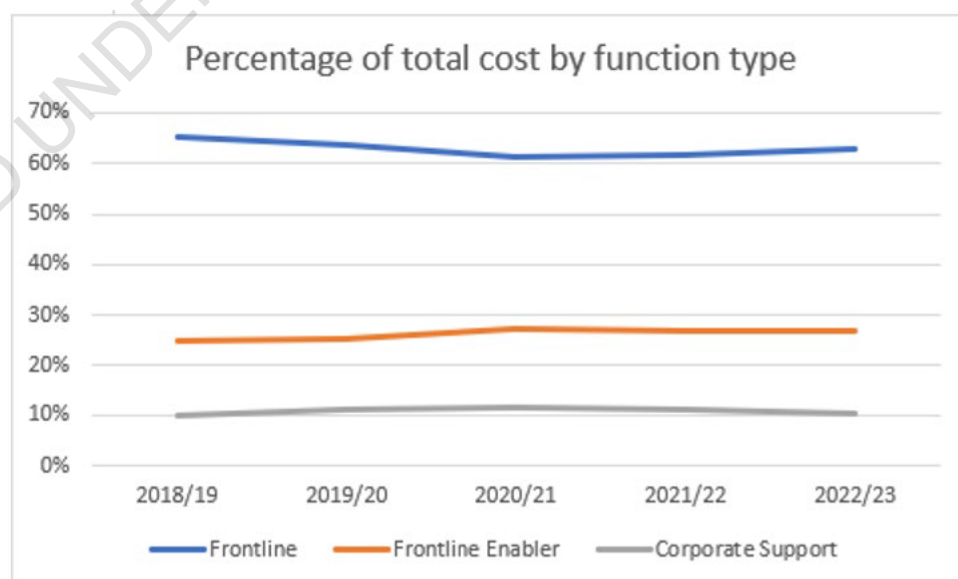
Expenditure Control

As a Board we have imposed expenditure control on the organisation from 2019 asking management to operate within an operating baseline of \$618 million. As you can see from the following graph taken from our annual reports this cost control was effective until the 2021/22 year when industrial bargaining with the NZPFU substantially lifted firefighter wage costs through the recommendations of a mediator appointed by a previous Minister.



Our wage costs increased from \$365 million in 2020/21 to \$485 million in 2022/23, with this \$120 million increase over two years accounting for the majority of the lift in expenditure. Technical accounting changes in software as a service (SaaS) and adjustments to the useful life of our diesel fleet made up most of the rest. These cost changes were not in the control of the Board, which has continued to insist the organisation operate within agreed baselines.

Over this period, we have also kept the proportion of the total costs that corporate support represents at around 10%:



Keeping corporate support proportionally in line has been challenging for the Board, as Fire and Emergency has essentially inherited the old New Zealand Fire Service (NZFS) back office and absorbed the need to support a far wider base with the previous rural functions that were supported from across the various Territorial Authorities and enlarged rural fire boards. Pre-amalgamation PwC Operational Reviews into the corporate function observed, *“The obvious conclusion to draw.....is that NZFS’s corporate functions are toward the lean end of the spectrum when compared to other agencies. There are signs that the corporate centre might be too lean...”*. While these reviews are now dated, we have not experienced the significant growth in corporate functions or overhead that is sometimes alleged.

Identifying and realising efficiencies

We initiated a structured programme of work to examine Fire and Emergency’s cost base, and to seek efficiencies. This programme pre-dates the coalition Government’s Fiscal Sustainability Programme, but is in clear alignment with it. As a Board, our focus has been on responsible financial stewardship. We have required management to plan and manage within a forward budget envelope that is not fully inflation adjusted. Some items are inflation adjusted (such as wages which are 65% of total costs) but the overall impact of movements beyond CPI, such as fleet maintenance and local body rates are to be absorbed.

As a consequence, Fire and Emergency does not, for example, carry significant numbers of funded but unfilled vacancies from which to offer or generate savings as has appeared to be the case in other public service entities. The Board’s focus on fiscal prudence predates the current focus on identifying responsible savings. Under our watch management have made savings of \$7.5 million since 2022/23, and management have been set savings targets of a further \$7.5 million in the 2024/25 budget.

We have commissioned value for money reviews of branches, with three such reviews already completed. We are currently completing a benchmarking exercise with the Scottish Fire and Rescue Service to better understand if the proportion of resources currently allocated to front-line, to roles and functions that enable and directly support the frontline, and to what may be described as “back-office” or corporate costs, differs. The work to date shows corporate overhead as a proportion of total expenditure is almost identical between the two organisations, where both serve similar populations but with a larger geographic coverage in Fire and Emergency’s case. We intend to expand this benchmarking exercise to include other Fire Authorities.

Other initiatives underway include network analysis, seeking to identify opportunities to reconfigure our operational footprint. We caution that this is unlikely to result in significant cost savings, due to the depreciated asset base and the volunteer staffing of less-busy fire stations.

There will undoubtedly be opportunities for further savings across Fire and Emergency including, but not confined to, ‘back-office’ functions. We have sought and will continue to seek these opportunities. We acknowledge that there are those who – quite reasonably– hold the view that there must be economies of scale, if not of scope, that the 2017 reforms should have generated. We agree in principle but note that there was considerable uncertainty around the achievability of efficiencies when Cabinet made decisions on the Fire Services Review in 2016. Documents show that Ministers thought that the efficiencies might not be achievable, and Cabinet did not have “good line of sight” of either rural fire sector costs or the baseline costs of the NZ Fire Service Commission.

In reality, no-one had good visibility of these costs. There were significant hidden costs in the rural fire sector, including substantial underinvestment in asset classes, and the additional challenges of bringing disparate organisations together into a cohesive new organisation. This has meant that 2016 expectations of efficiency gains were, in our view, not realistic. Our view is that Fire and Emergency is rapidly approaching a point where making do, as it has, will no longer do.

Alternative lower cost scenarios, operational structure and efficiencies

As the organisation has only been operating for seven years and its initial structure only finalised in the last two years, the Board believes it is too early to embark on further structural change. The Board would prefer to let the existing structure operate for a period and then reassess the efficiency and effectiveness. In addition, the benchmarking work the organisation is undertaking will provide insight into different structures of fire and rescue entities elsewhere.

The Board has asked management for a plan to reduce costs without impacting on the frontline. Elements of the plan include:

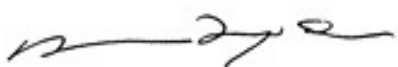
- further reducing contractors and consultants by 10% from the initial reduction of 17% (27% in total)
- further prioritising the strategic initiatives portfolio in non-operational areas
- reducing travel costs by 25% in non-operational areas (i.e. excluding operational deployments and training)
- reducing non-operational training and professional development by 25%
- significantly reducing other non-operational discretionary costs.

These savings targets have the potential to yield another \$10 million in cost reductions per annum in addition to the \$7.5 million budget contingency and \$7.5 million of savings already achieved. This equates to 3% of total expenditure or 7.5% of non-frontline expenditure.

The Board is also willing to consider a sinking lid on non-operational staff by not filling vacancies that arise but notes that this will be challenging for back-office roles that perform necessary functions like accounts payable, non-operational payroll, and non-operational ICT.

Out of Scope

Yours sincerely,



Hon Ruth Dyson
Deputy Chair, Fire and Emergency New Zealand Board

Copy to: Rebecca Keogh, Board Chair MNZM
Danny Tuato'o Board Member
Kerry Gregory, Chief Executive
Paul James, Chief Executive - Department of Internal Affairs

Out of Scope



22 JUL 2024

Rebecca Keoghan
Board Chair
Fire and Emergency New Zealand
Rebecca.Keoghan@fireandemergency.nz

Dear Rebecca

Out of Scope

In addition, I want to discuss with you a total savings target to be achieved by the end of the first levy period of \$60 million. This is in addition to aligning expenditure to a 0% change to levy revenue. I expect Fire and Emergency to reduce its currently planned operating costs by \$60m in total by 30 June 2029. I will discuss with the Board how progress against the target might be reported to me. I was pleased to see in your letter, dated 13 June 2024, that you have already identified some potential cost savings that would not impact frontline services. This provides a useful starting point for the conversation.

Together, this approach ensures the levy provides a stable funding source for Fire and Emergency as a key frontline service provider, while ensuring costs for insurance holders are being managed in a responsible manner.

Out of Scope

Yours sincerely



Hon Brooke van Velden
Minister of Internal Affairs

cc. Kerry Gregory, Chief Executive, Fire and Emergency
Kerry.Gregory@fireandemergency.nz

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14 August 2024

Hon Brooke van Velden
Minister of Internal Affairs
Executive Wing, Parliament Buildings
Wellington

Dear Minister

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Cost savings

Once the Board have considered and approved a plan to accumulate \$60m through cost savings you have asked us to achieve by 2029, we will provide you with a briefing outlining our approach. This briefing is intended to include commentary about back-office efficiencies and the role of our Financial Sustainability and Investment Committee. We will then provide you with quarterly updates on progress through our regular quarterly reporting.

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Yours sincerely



Rebecca Keogh MNZM
Chair, Fire and Emergency New Zealand Board