



**Submission of the Society of Local Government Managers
on the
Fire and Emergency New Zealand Funding Review
Consultation Document**

The New Zealand Society of Local Government Managers (SOLGM) thanks the Department of Internal Affairs (the Department) for the opportunity to submit on the Fire and Emergency New Zealand Funding Review Consultation Document (the CD).

Who are We?

SOLGM is an incorporated society of approximately 870 members drawn from local government Chief Executives, senior managers, and council staff with significant policy or operational responsibilities.¹ We are an apolitical organisation. Our contribution lies in our wealth of knowledge of the local government sector and of the technical, practical and managerial implications of legislation.

Our vision is:

Professional local government management, leading staff and enabling communities to shape their future.

The submission is in two parts. In the first part we consider the proposed change to the methodology for funding the fire service as a matter of principle. In part two we provide our first thoughts on the technical and practical issues that will need to be resolved.

Overall, we consider the proposal covers only a small part of a much bigger picture – and therefore that a more substantive review of the funding of Fire and Emergency New Zealand (FENZ) is warranted.

It is not clear to us why property owners (or to be more accurate the subset that are insured) are providing five dollars in every six of FENZ revenues. We submit that a

¹ As at 15 January 2020.

proper review of FENZ funding would be asking further questions such as the future of an insurance-based levy on motor vehicles and the case for a larger contribution from the Crown.

Central government currently funds most FENZ from a hypothecated tax on insurance policies (be property or motor vehicles). The proposal appears to change the basis of tax to a tax on property and a tax on vehicle insurance. Two of the fundamental principles of tax are

- **beneficiary pays:** that funding should be linked as strongly as practicable with the sectors that benefit from the services provided by Fire and Emergency New Zealand; and
- **accountability:** that those paying tax are able to hold the body receiving the tax accountable for the use of the revenues.

The proposal offends against both these principles.

The Proposal

Central government and its agencies appear to be increasingly turning to the rating system as a funding solution

We draw the Department's attention to an element of current public policy debate that appears to have gone unnoticed, even by the Department with oversight of the local government system. Central government, its agencies and statutory creations are increasingly looking to the rating system as the means for funding activities central government provides or acts as sponsor for.

The proposals in the CD are but one of three policy/legislative proposals in train that would in some way grant access to the rating system and/or require local authorities to administer through the rating systems. The others include:

- the Infrastructure Funding and Financing Bill – which empowers the establishment of so-called special purpose vehicles (agencies that borrow to finance infrastructure in a defined area and repay the loan through targeted rates administered by the affected local authorities) and
- the Urban Development Bill – this bill provides Kāinga Ora with the powers of an urban development authority in a defined project area or areas – including the powers to set rates and require the constituent local authorities to collect those rates. Kāinga Ora was recently provided with authority to borrow up to \$7.1 billion for housing and related infrastructure – and while only a portion of this would be recovered via rates that is still a considerable sum.

And each of these proposals proceeds at the same time as the Government is considering advice from the Productivity Commission that, among other things, was

intended to consider the sustainability and suitability of property tax as a funding source.

Should all of these proposals succeed it is entirely possible that a ratepayer might find themselves paying up to three new levies through the rating system. Human nature being what it is, the focus will be on the 'bottom line' of the rates assessments and invoices (i.e. the total amount of all the 'rates'). It concerns us that there is no coherent overall view on property tax and what its for. And equally concerning is that there is no central government agency responsible for identifying the cumulative effects of these initiatives on the ratepayer and on the sector.

There is little detail on how the proposal will operate in practice

The CD proposes a significant shift in the methodology for funding Fire and Emergency New Zealand (FENZ). In essence the paper proposes a replacement of the present levy on insurance policies with a hypothecated tax on property values administered either by local authorities or using the information local authorities hold to administer the rating system. Beyond a few speculative possibilities, there is limited detail on how the proposal would operate.

A more fundamental review of FENZ Funding is needed to establish the correct balance of taxing property, vehicles and others

We were interested in the information presented in the infographic entitled *A Snapshot of Fire and Emergency New Zealand* (page of 11 of the CD).² It appears that levies on insurance policies account for some 86 percent of FENZ's total revenue. Yet fire related incidents appear to account for less than 12 percent of the incidents FENZ attended in that year (based on what's in the infographic).

By comparison, it appears that medical emergencies are the most frequently attended incident (around 17 percent). We suspect some element of the government contribution is a partial recognition of this aspect of FENZ operations, but note that this is some 1.3 percent of FENZ's total revenues. Similarly, the motor vehicle levy accounts for some 8.3 percent of FENZ revenues, yet motor vehicle incidents accounted for some 12.5 percent of the incidents attended.

Of course, mere numbers of incidents attended does not necessarily correlate to cost. A major fire incident (such as the Port Hills or SkyCity) may take days to resolve, where a medical emergency may take minutes.

² We were particularly interested in the information categorising the different types of incident that FENZ responded to in the 2018/9 year. The five categories presented in the infographic collectively account for little more than half of the total incidents that FENZ attended in 2018/9.

What these numbers suggest is that the 'benefits' of FENZ services are enjoyed by a far wider group than property owners. There is some evidence to suggest that property owners may be bearing at least some cost more appropriately borne by the motorist, by those agents dealing in/with hazardous substances, and by society in general. There is a case for further considering whether all the activities that generate incidents are meeting the costs

The proposal undermines the accountability that FENZ, and the government have to those paying the tax

LGNZ's submission notes that it must be clear to those who pay fire service levies that they are administered directly by FENZ itself. Using proxy agencies to collect the levy on its behalf undermines that accountability and reduces the level of scrutiny that public organisations need to build and maintain community trust. We can only agree.

The points made about levies on the value of property insurance contracts apply equally to the motor vehicle levy, and to rates

The CD correctly notes that reliance on property insurance model incentivises free-riding i.e. those without insurance escape the levy, yet still receive the same degree of protection and other services from FENZ.

Anything that increases the cost of insurance may, at the margin, discourage some property and vehicle owners from insuring (especially in an environment where premiums are rising rapidly). The levy is not insignificant, at the current rates specified in regulations, an owner of the median-valued residential property (approximately \$700,000) insured for that amount would pay some \$740.

These are both valid points, but apply equally to the motor vehicle levy. This too is levied on the value of motor vehicle insurance policies, though we accept that the present rate \$8.45 per vehicle does not seem prohibitively expensive. We ask why options for reform of the motor vehicle levy are not under consideration. For example, might surcharges be added to vehicle registration, to fuel excise or to road-user charges for FENZ purposes.

Equally moving to collection through the rating mechanism might add to the burden that low-income ratepayers face and lead to an increase in non-collection of rates. If local authorities are responsible for collecting the levy that effectively moves non-payment of the FENZ levy from being central government's concern to a local authority's concern. We again remind the Department that this proposal comes at a time when it is advising Ministers on the outcome of an inquiry into the sustainability of rates as a funding source.

Recommendation

- 1. That the review of FENZ Funding be broadened in scope to include:**
 - a) a review of property based levies**
 - b) whether a levy on motor vehicle insurance is the appropriate means for recovering funding for vehicle related incidents**
 - c) whether and how economic agents whose businesses involve dealings with hazardous substances are making any contribution (and if not then mechanisms for such a contribution) and**
 - d) a contribution from the Crown in recognition of the work FENZ undertakes to support medical and risk reduction outcomes**

Central government should not presume that any collection or information requirements placed on the sector will be provided gratis

The CD suggests that local authorities would either act as the collection agents for the levy (interesting given comments elsewhere about the complexities that insurance companies face collecting the current levy) or “providing the data” (as part of a local government contribution to FENZ).

In fact, local authorities are property owners. Their properties are valued and insured. Local authority owned properties must be placed on valuation rolls – and are rated unless the local authority remits rates. The point is that local authorities pay the existing levy, and would do so under the proposals.

Good tax policy suggests that, all things being equal, the agency who sets the tax and receives the proceeds, should also administer the tax. The primary exception to these principles are where the transactions costs of independent administration are prohibitive. We concur (reluctantly) that a separate collection mechanism for a tax on this scale may not make economic sense.

It is for this reason, that there are six regional councils that rely on their constituent territorial authorities to collect their rates. But this collection is not done gratis. Section 43 of the Rating Valuations Act 1998 provides a formula for apportioning the cost of preparing the valuation roll where the regional and territorial authority cannot agree.³ Both parties enter into an agreement in regards the other costs associated with collection (for example, invoicing and enforcement) and on the day to day administration of rates.

³ Effectively the cost of preparing the valuation roll is shared in proportion to the rates revenue each of the regional council and the territorial authority raise.

Exempting FENZ from meeting the costs it imposes on the collection agency would be bad public policy. A contribution ensures that FENZ designs its levy requirements in such a way that its cognisant on the administrative and compliance demands it places on others.

It's not clear whether and how the Government intends to provide local government with any ability to influence FENZ governance and direction-setting in return for this contribution. Nor is it clear how the Government intends that FENZ demonstrates its accountability should local government be required to collect the levy.

Recommendations

- 2. That central government be required to make a contribution to costs of any local authority administration of the levy.**
- 3. That the Fire and Emergency NZ Act be amended to provide local government with the ability to nominate one or more representatives to the Board of FENZ.**

Technical and Practical Issues

Valuation information may not yield the answers that the Government seeks ...

The CD and our discussions with officials highlighted that the optimum funding system would be cognisant of the level of risk in each individual property. Reliance on property information will give only a weak correlation to levels of risk. The capital value of a property does bear some relationship to the intensity of use of a property – broadly speaking the higher the intensity of use, the higher the capital value.

But equally, the level of risk could be argued to be higher for properties with lower values. For example, these may be older homes with original wiring, rental properties experiencing more 'wear and tear,' properties in lower income areas where residents might rely on older or damaged electronic equipment and the like. Property values are driven by market-based factors – for example two identical properties on either side of a road might have markedly different values because the line in 'zones' between school A and school B runs down the middle of the road. The presence of a water view likewise bears little relationship to risk.

Our discussions with officials focussed on the potential to identify property use that's deemed to be high risk. Rating valuations must be undertaken in accordance with the Rating Valuations Rules – which do specify a set of codes for different types of property use that must be shown on the valuation roll. These are a two-digit code – the first is a primary use code which can take one of the values in Table One below.

Table One: Valuation Roll – Primary Use Codes

Code	Explanation
0	Multi-use at the primary level
1	Rural industry
2	Lifestyle
3	Transport
4	Community services
5	Recreational
6	Utility services
7	Industrial
8	Commercial
9	Residential

Having then arrived at a primary use code, a secondary code then provides further detail. To take an example Table Two shows the secondary use codes for properties where the primary use has been identified as industrial. This is the lowest level of aggregation of use data. Industries that might be considering higher risk are aggregated with others that might be considered lower risk. For example, at the secondary level a high-risk industry (chemicals) is aggregated in with others that may not bear as high a level of risk.

Table Two: Secondary Use Codes for Properties with an Industrial Primary Classification

7	Industrial	
	Multi-use within industrial	0
	Food, drink, and tobacco	1
	Textiles, leather, and fur	2
	Timber products and furniture	3
	Building materials other than timber	4
	Engineering, metalworking, appliances, and machinery	5
	Chemicals, plastics, rubber, and paper	6
	Other industries, including storage	7
	Depots and yards	8
	Vacant	9

In short, relying on the property system will largely rule out incorporating significant elements of risk-based charging, and at anything other than a high level of aggregation of land-use.

FENZ will need to play a role in administering any charges collected through the rating system

This submission has previously noted that there are six regional councils where rates are collected by the constituent territorial authorities. These arrangements do not absolve regional councils of all responsibility for administration of their rates. In particular managing ratepayer queries or challenges as to the regional council aspects of the rates e.g. why this regional council rate is set in that way, whether the rating unit is liable for this or that regional rate etc.

That is to say that devolving responsibility for collection of any FENZ levy, doesn't absolve FENZ of accountability to the public for those rates. FENZ will need to ensure it is resourced to manage queries about its levies and resourced to contribute its share towards the cost of administering the charge. For example, in local authorities where there are no use-based differentials, a FENZ charge that is based on use might incentivise additional objections to information on the rating database. In those cases, a contribution from FENZ would be equitable.

There are a host of collection and enforcement issues

The proposal asks respondents for an 'in principle' endorsement – it has therefore said little about the collection and enforcement processes for the levy. To take some examples:

- what penalties would be applied for non-payment or late payment
- is there any intent that the FENZ levy would have precedence over other charges collected through the rating systems e.g. if a ratepayer returns only a partial payment in what order are the charges deemed to be paid
- who makes the decision to take enforcement action to recover any unpaid rates/levies – the territorial authority, FENZ or both together etc
- some 21 categories of property are exempt from paying rates other than for the provision of water, sewage disposal and refuse collection (where the property is serviced).⁴ These properties all benefit from FENZ services (FENZ is unlikely to decline to put out a fire at a school, hospital or on the DOC estate).

The Department should study some of the collection agreements between the territorial and regional councils. These represent pragmatic agreements between local authorities and identify the full range of issues that FENZ and local authorities might need to resolve. We would be happy to convene a discussion if that would be useful.

Recommendations

- 4. That the Department liaise with councils that collect regional council rates on the issues that arise with collection and enforcement in these circumstances.**
- 5. That any FENZ levy on properties clearly establish that property that are exempt from rates are liable for the FENZ levy.**

⁴ Additionally, there are other properties, such as the Carter Observatory, that are exempted under their own establishing legislation.