Finance and Performance Committee
ATTACHMENTS UNDER SEPARATE COVER

Date: **Thursday 30 January 2020**
Time: **9.30am**
Venue: **Council Chambers, Civic Offices, 53 Hereford Street, Christchurch**

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Fire Funding Review
Department of Internal Affairs
PO Box 805
Wellington 6140

firefundingreview@dia.govt.nz

Christchurch City Council submission on the Fire and Emergency New Zealand (FENZ) Funding Review

Introduction

1. Christchurch City Council (the Council) thanks the Department of Internal Affairs (DIA) for the opportunity to provide comment on the Fire and Emergency New Zealand Funding Review.

2. The Council supports the need for a funding review of FENZ, however considers that the options as proposed do not go far enough. As noted in the Consultation Document (CD)[1], this is "an opportunity to take a clean slate approach to funding". However, the CD then states[2] that "funding Fire and Emergency predominately through general taxation" is not in the scope of the review.

3. The review must also consider the option of funding FENZ through general taxation to truly take a "clean slate approach" as referred to by the Minister.

4. Council makes the following recommendations as part of this submission:

   - That the scope of the review be extended to consider the option of funding FENZ through general taxation.
   - The scope of the review be extended to consider the amount of Government funded contributions for medical and motor vehicle incidents.
   - That a cap be placed on commercial insurance similar to residential insurance.
   - That should a property based approach be selected, an MOU between each Council and FENZ be developed.
   - That the number of proposals to use Council's rating systems as a collection mechanism be noted and considered

[1] Message from Hon Tracey Martin, pg. 3
[2] What this consultation is not about, pg. 6

Civic Offices, 53 Hereford Street, Christchurch, 8011
PO Box 73016, Christchurch, 8154
Phone: 03 941 8999
www.ccc.govt.nz

Submission

Equitable funding

5. The Council supports the retention of the funding principles set out in the Fire and Emergency New Zealand Act 2017. These principles are that any funding regime be stable, universal, equitable, predictable, and flexible.

6. Based on the information provided on page 11 of the CD, it is hard to see how the proposed funding regime is equitable. The breakdown provides details for only 43% of the incidents attended, and the analysis below is based on this limited information.

7. Structure and vegetation fire events account for only 13% of incidents responded to in the 18/19 year yet insurance based levies on property insurance accounts for 86% of FENZ's revenue. Even allowing for significant events such as the Tasman or the Sky City Convention Centre fire responses this appears to be disproportionate.

8. The most frequently attended incident type in the information provided is medical emergency (17%) – Council assumes that part of the Government contribution (1.6% of total funding) recognises this type of event. Council's position is that there should be increased funding from the Government to reflect the overall benefit the health system receives from this FENZ service.

9. Motor vehicle accidents make up 12% of the incidents FENZ responded to during the 18/19 year. The motor vehicle levy accounts for 8.1% of funding received and assumes that all benefits of this service are received by the vehicle owner. Council considers that as a significant proportion of these incidents would also involve some form of medical assistance, funding should be contributed from either the Ministry of Health or the Accident Compensation Corporation.

10. Council recommends that the funding review be extended in scope to consider the amount of Government contribution given the benefits to the health system of FENZ responding to medical emergencies and motor vehicle incidents.

11. It would be helpful to know what the remaining 57% of incidents are in order to provide further feedback.

Insurance based levy

12. The transitional arrangements calculate the levy on the insured value of property, with no allowance for the specific risk of each asset. At present the levy can be calculated on a fire loss limit basis rather than the full value insured. Once the transitional period expires on 01 July 2024 the levy must be calculated on the full value insured.

13. The Council currently insures above ground assets valued at $3.5 billion, with this value likely to increase by approximately $500 million over the next few years. However, the increase in the benefit the Council receives from FENZ may not necessarily increase by that amount. Unlike individuals or many commercial landlords Council is extremely unlikely to suffer a total loss of all insured property.

14. If no further changes are made to the levy regime before the transitional period expires, the Council will be facing a multi-million dollar increase in the amount of levy it pays. Currently

Council pays approximately $800,000 annually in levies and this is estimated to increase by almost $3 million under an insurance based levy. This significant increase will have a direct impact on ratepayers, the majority of whom will be paying a levy under their own insurance arrangements. Council recommends that a cap be placed on commercial insurance in the same way as proposed for residential insurance.

15. One issue with the current insurance based levy is the “free rider” effect where uninsured parties still benefit from the services FENZ provides. While approximately 85% of property across New Zealand is insured at present, potential changes in the market need to be considered.

16. Insurers are moving to assess risk by property which may lead to policy pricing and conditions that make insurance unaffordable, or even the withdrawal of cover in certain locations such as coastal or low lying areas. The Council is concerned that changes in the availability of insurance may result in a decrease the level of insured property and place the funding requirement on a smaller pool of levy payers.

Property based levy

17. The Council is not opposed in principle to a property based levy using the data held in each local authority’s rating information data base with adjustments for property usage to reflect the level of risk. However, the property use codes currently set out in the Rating Valuation Rules are not aggregated at an appropriate level for this purpose. As an example under the “Industrial” use code the high risk use “chemicals” are grouped with “plastics, rubber and paper” which are lower risk.

18. In addition there are a number of practical issues to be considered with this approach. These include whether the levy should be calculated on the capital value, land value, or improvement value of each property. As the rating value is market based, similar properties in different areas of the country, or even the same city, may end up paying significantly different levy amounts. As the key principle of a levy being equitable remains, some form of equalisation will need to be included in the levy regime.

19. As referred to in paragraph 13 above, Council is extremely unlikely to suffer a total loss of all insured property. If no further changes are made to the levy regime before the transitional period expires, the Council will be facing a multi-million dollar increase in the amount of levy it pays. Council currently pays approximately $800,000 annually in levies and this is estimated to increase to $2.3 million under a property based levy. This increase will have a direct impact on ratepayers who will also be paying a levy on their properties.

20. The CD refers to local authorities providing “in kind” support[3] to reflect the wider benefit local communities receive from FENZ. It is suggested that this support could take the form of collecting the levy on FENZ’s behalf or providing the data for a property based approach. On the same page of the CD it mentions that there would be costs for FENZ and collection agents (either insurers or Councils) in moving to a new funding model. These costs would include both set up costs and ongoing administrative costs, but is silent on who would fund these costs.

21. If a property based approach is taken, Council expects that the costs of transition, set up and ongoing management would be met by FENZ. As a property owner Council is already making a significant contribution towards FENZ. A Memorandum of Understanding between each local

[3] Other potential sources of funding, pg. 15

authority and FENZ would need to be developed which outlines what is required of each party, who is responsible for funding the requirements, and a number of other practicalities.

22. Council supports the observations made in the submission by SOLGM regarding the technical and practical issues associated with a property based levy.

23. Council also notes that this submission process is one of three currently underway that are looking towards local government and the rating system as a mechanism for collecting funding. The other two processes are the Urban Development Bill which would see Council collect Development Contributions on behalf of Kainga Ora, and the Infrastructure Funding and Financing Bill which would require Council to collect targeted rates on behalf of a special purpose vehicle.

24. If all of these proposals succeed it is possible that a ratepayer may find themselves paying up to three new levies through Council's rating system. Our concern is that any increase will be seen as the fault of Council, at a time when Council is already facing push back on rating levels.

For any clarification on points within this submission please contact Adrian Seagar, Senior Insurance Specialist at adrian.seagar@ccc.govt.nz

Yours faithfully

Lianne Dalziel
Mayor
Christchurch City Council