NZ AIRPORTS ASSOCIATION

5 February 2020

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

Email: firefundingreview@dia.govt.nz

Submission on Fire and Emergency New Zealand Funding Review

1. Thank you for the opportunity to comment on approaches being considered to fund Fire and Emergency New Zealand as invited via the Consultation Document that was released in November 2019.

2. NZ Airports appreciates the background provided by the Minister of Internal Affairs and that this opportunity for a "clean-slate" review is to see if there are more suitable options for funding Fire and Emergency than the current levy on property insurance. We note that "Phase 2" of the review will include further consultation on the levy rate and how it should be applied.

3. This submission is from NZ Airports and is made on behalf of the Association's members[1]. Individual airports may also provide comments, and this submission should be read in conjunction with any separate submissions from airports.

4. NZ Airports has previously submitted during earlier processes for establishing Fire and Emergency New Zealand[2], that the insurance based funding models (as existed for the NZ Fire Service, and as proposed under the Fire and Emergency Act to come into effect on 1 July 2024 if no other action is taken) do not meet the funding principles set out in the Fire and Emergency Act in that they are not universal, equitable or predictable.

5. In its 21 December 2018 submission, NZ Airports strongly submitted that the extension in time for the transition levy be utilised to fully consider other funding options that are more risk-based and more aligned with the principles of the Fire and Emergency Act. It is pleasing to note the Minister's strong commitment to a "clean slate" review.

6. NZ Airports will be pleased to provide any further information required in support of this submission. The contact person is:

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[1] Our member airports include Ardmore Airport, Ashburton Airport, Auckland Airport, Chatham Islands Airport, Christchurch Airport, Dunedin Airport, Gisborne Airport, Hamilton Airport, Hawke's Bay Airport, Hokitika Airport, Invercargill Airport, Kapiti Coast Airport, Kaikohe Airport, Katikati Airport, Kerikeri Airport, Marlborough Airport, Masterton Airport, Matamata Airport, Motueka Airport, Nelson Airport, New Plymouth Airport, Oamaru Airport, Palmerston North Airport, Queenstown Airport, Rangiora Airport, Timaru Airport, Rotorua Airport, Takaka Airport, Taupo Airport, Tauranga Airport, Wairoa Airport, Wanaka Airport, Whanganui Airport, Wellington Airport, West Auckland Airport, Westport Airport, Whakatane Airport, and Whangarei Airport.

[2] Submission dated 21 December 2018 on the Fire and Emergency New Zealand (Levy) Amendment Bill; and submission dated 30 November 2016 on funding Fire and Emergency services

The review process and timeframe

7. NZ Airports supports the scope of the review as set out in the Discussion Document, and the two-phased approach.

8. NZ Airports supports the review working within the existing principles that are set out in the Fire and Emergency Act.

9. Although FENZ expenditure is outside the scope of the review, we note that the 2018-19 Annual Report shows that the transitional levy is delivering an annual surplus of around $40m. However, the Discussion Document 'snapshot' of FENZ expenditure suggest that expenditure is rising to almost match the transitional funding in 2020-21. This raises material concerns on both the revenue and expenditure sides of the interim funding regime. NZ Airports is keen to see the transitional regime replaced as early as possible.

10. NZ Airports has supported the extension of the time period for the transitional insurance-based levy[3] as a "short-term measure" while the funding system is reviewed, however the "window" to 1 July 2024 (at which time the funding model determined under the Fire and Emergency Act would come into effect) needs to be managed efficiently to ensure that not only is the review completed, but a new model has been set up to become operative before that (preferably earlier).

11. Any further extension of time for the transition levy would be opposed because the significant increase that occurred in the levy is being borne by many payers in a model that we view as inequitable and unsound. It is therefore important that the review process is closely time-managed as a project to avoid any risk of over-run, and preferably with a goal of implementing an alternative well ahead of that date.

12. The Consultation Document has provided a helpful overview of the Fire and Emergency services within New Zealand's integrated approach to emergency management for risk reduction, readiness, response, and recovery. This also highlights that a large proportion of Fire and Emergency New Zealand's costs are associated with the service "being available" – whether or not actually called upon for a response. Understanding these aspects of Fire and Emergency NZ's business is in our view important in determining the funding model, and the metrics to be used for estimating and apportioning the necessary funding.

13. The Consultation Document has acknowledged the trends in overseas jurisdictions to move away from insurance-based models. Many of the examples demonstrate that other risk-based models are practicable. NZ Airports however encourages that a risk-based model for New Zealand be kept simple (at least in the formative stages) without the levels of risk categorisation that are evident in some of the overseas models. Given the nature of the Fire and Emergency NZ business (largely fixed costs associated with the service "being available"), broad risk categorisations should achieve an adequately equitable and fair system.

The existing funding model is not appropriate

14. The existing insurance- based model for funding is wholly or partially consistent with only two of the principles set out in the Fire and Emergency Act, as set out below. The existing model -

[3] The transitional levy was increased 40% above the previous levy – over and above increases in the funds being raised as a consequence of increases in insured values reflecting inflationary effects, and increases in economic activity.

- **provides a somewhat stable source of funding**. However, FENZ's revenue will fluctuate with changes in property values (this may be one of the reasons for current over-recovery) and the regime will incentivise self or under-insurance and the restructuring of insurance policies as parties seek to minimise their levy;
- **is not universal**. The insurance-based levy means those who do not insure do not contribute to FENZ, despite receiving the benefits of FENZ's services. Also, relying on insurance baselines means that organisations have greater scope to alter their insurance exposure or completely self-insure. Furthermore, the government does not appear to be paying its fair share. As of 2013, public assets were estimated by the Office of the Auditor-General to be insured to approximately half their carrying value. It also appears that major public entities like tertiary education institutes and district health boards will have their FENZ levy capped but private enterprises will face an uncapped levy;
- **is not equitable**. The funding regime makes little attempt to identify and charge beneficiaries based on the cost or risks they impose on FENZ. Further, there is no risk or experience rating built into the levy structure. Contrary to the Treasury's principles for cost-recovery by government entities, the funding regime will result in significant cross-subsidisations between different beneficiary groups;
- **is not predictable**. The levy base will change with changes in the levied insurance contracts and with fluctuations in property values, which inevitably will lead to rates needing to change. There will also likely be periods of over/under collecting (especially in the short-term) as the regime converges to a more predictable state; and
- **is flexible**. The levies can be adjusted over time without new legislation.

15. NZ Airports submits that the limitations of an insurance-based model as set out in the Consultation Document, and above, disqualifies that approach compared to the benefits of models that are more risk-based and universal.

16. The table on page 13 of the Consultation Document acknowledges, in general terms, that a "property and use" model has significant advantages over insurance models when considered against the principles of universality, stability, and being equitable. NZ Airports supports that view.

17. Similarly, the table on page 14 of the Consultation Document acknowledges, in general terms, that a "Licencing" based model has significant advantages over both insurance models and Land Transport revenue models when considered against the principles of universality, stability, and being equitable. NZ Airports supports that view.

<u>Example framework of a risk-based model for NZ</u>

18. The following table sets out - by way of example only – a model that could potentially provide a universal, equitable, risk-based funding system:

Beneficiary Group	Risk Category	Levy Base
Residential	Residential	Lump sum per dwelling unit
Industrial, commercial and rural buildings	High risk	Rate per sqm of building
Industrial, commercial and rural buildings	Medium risk	Rate per sqm of building
Industrial, commercial and rural buildings	Low risk	Rate per sqm of building
Rural vegetation	Vegetation	Rate per hectare
Motor vehicle	Motor vehicle requiring class 1 or 6 licence (could be based on simplified NZTA vehicle type groupings)	Rate per motor vehicle registration
Motor vehicle	Motor vehicles other than above	Rate per motor vehicle registration
Public good (Search and Rescue; Medical; Natural disasters)	Public good	Lump sum from central Govt

Table 1

19. The table is based on identifying like groups of beneficiaries of Fire and Emergency NZ (FENZ) services and/or the availability of those services whether called upon or not.

20. Where significantly different levels of risk are present within a group of beneficiaries (such as Industrial, commercial and rural buildings), risk categories within that group are identified.

21. For each risk category a metric is suggested to form the basis of a levy. The metric largely reflects scale – eg area (square metres or hectares as appropriate) or per unit (such as per dwelling unit or per vehicle).

22. Notwithstanding the comment on page 6 of the Consultation Document that "funding predominantly through general taxation" is outside the scope of the review, NZ Airports believes that there is a significant public good aspect to FENZ's services. The table therefore acknowledges this with a public good beneficiary group. Rescue work, medical emergencies, and natural disaster response capability are not associated with particular private or public assets – but rather the economy and well-being of the New Zealand community as a whole. Fire and Emergency are called on to assist in responding to events (such as the bush fires in Australia, or a fire in a national Park) which are not in the nature of a private good that should fall on the owners of other assets (only).

23. The 'Beneficiary Groups' should apply universally – including government and local body buildings such as offices, schools, hospitals etc. This cost to the Crown or local government is not in the nature of a public good – but related entirely with to property (and vehicles) falling naturally within a beneficiary group. It would be unfair to have otherwise similar beneficiaries (such as a public hospital and a private hospital) treated differently for levy purposes.

24. We acknowledge that the allocation of costs against each 'Beneficiary Group' will need to be broad brush but can reflect the extent to which FENZ costing records suggest the overall scale that a particular group is benefiting from FENZ service (not necessarily driven solely by costed value of call-outs, but rather an assessment of a fair share of the overall costs of "being available").

25. The FENZ policy on resource response (i.e. the guidelines for scale of operational response) to an event involving a given 'Beneficiary Group' should be used as a guide to justifying steps in Risk Category applicable to that Group. For example, if the FENZ response scale is materially higher for a multi-storey structure (per sqm) than for the same area as a single storey building then a separate Risk Category may be justified. Similarly, an office or administration building of the same square metres as a warehouse within the same Beneficiary Group may justify a higher Risk Category for the latter.

26. The data for the suggested metrics exists – associated with a beneficiary (owner). The challenge, which should not be insurmountable, is to have reliable access to that data for the levy collecting agency. The suggested metrics (and grouping of beneficiaries) deliberately avoids asset values or insurance cover as these metrics are unrelated to risk or demand. NZ Airports submits that the FENZ costs of preventing and responding to emergencies are largely unrelated to the value of assets or the potential repair/replacement costs (insurance focus) arising in the event of an emergency.

<u>Early data access and analysis essential</u>

27. The data to support such a risk-based model needs to be identified and accessed early to properly inform the Phase 2 consultation of the review process. Without modelling of the levy using reliable data, the impact on beneficiaries (those being consulted) will be rather meaningless – a problem that has even frustrated the implementation of the insurance-based system proposed under the Fire and Emergency Act.

<u>Ensuring equity in a risk-based model</u>

28. NZ Airports submits that a rebate or levy credit should be considered where there are material benefits in creating market signals to beneficiaries to invest in risk reduction (sprinkler system, industrial fire services, etc), and where such investment is already in place and would make a material difference to the level of FENZ response to an event or associated costs.

29. Depending on the definitions of the Beneficiary Groups, there may be a need for exemptions, such as those approved by Cabinet[4] in July 2017. Alternatively, if assets that do not pose a material risk are not included in the scope or definition of any beneficiary group, that could have a similar effect and not necessitate exemptions.

<u>Levy setting and collection</u>

30. The levy collecting agency will need to be considered alongside the funding model. More than one collecting agency should be considered for reasons of efficiency – but preferably only one collecting agency dealing with a particular Beneficiary Group. In the example Table 1 above it is anticipated that motor vehicle levies should be associated with the vehicle registration process, in which case the NZTA could be the appropriate collecting agency.

31. For other Beneficiary Groups, the collecting agency may be FENZ or another agency such as IRD or ACC.

[4] See EGI-17-MIN-0195

32. NZ Airports also submits that the funding regime should require each setting of the Levy, irrespective of the period of its application or frequency of review, to be in the context of 3-year projections and forecasting with a view to balancing the excesses or shortfalls in recovery over a period of 3 years. In other words, the levy should be set at the frequency determined by the Minister with the intention of balancing a memorandum account recording over and under recovery over a period of not more than 3 years.

33. The funds collected for Fire and Emergency should be committed exclusively to that purpose with transparent recording of over or under-recovery, and an objective of minimising fluctuations.

Airport-specific comments

34. Airports are very concerned about the impact of future FENZ levies. They provide infrastructure and services with a unique set of risk and asset characteristics, including owning and operating large scale and costly infrastructure.

35. With regard to risk, airports operate in a highly regulated environment with a specific focus on safety, to the extent that there is a specific government agency (the Civil Aviation Authority), international safety standards (established by the International Civil Aviation Organisation), and a comprehensive regime of certification, safety management and audit.

36. In most cases, airports are required by civil aviation rules to provide some level of emergency response and at larger airports this includes an airport fire rescue service with strict emergency response capabilities. In addition, airports typically have extensive fire detection and prevention systems, high security, and on-site human presence (often 24/7).

37. Regarding their physical assets, significant infrastructure such as runways and apron pavement, while costly, are very low fire risk. Retaining walls, sea walls and airport roads are similarly very low risk. We therefore submit that such assets (as distinct from building assets) should be excluded from the baselines for levy funding, or should be exempted. For equity, we suggest that roads and rail tracks should be treated in the same way – the focus being on the assets that represent risk involving rescue or fire control (ie buildings and vehicles).

38. Airports are also subject to statutory constraints on the way in which they can recover the costs of aeronautical services from users. In particular, airports generally set charges for five year periods and cannot readily adjust their charges when material and unexpected cost increases occur. Nor can they "crystal ball" what the impact of future levy changes might be.

39. For this reason, and as noted above, NZ Airports submits that future levies should to be in the context of 3-year projections and forecasts with a view to balancing the excesses or shortfalls in recovery over a period of 3 years. There should also be an objective of minimising fluctuations.

40. To enable constructive feedback in Phase 2 of your consultation we ask that these important matters of detail be addressed in the overall design of the model and that it take into account the unique circumstances of transport infrastructure. We would be happy to assist with further comment as work from Phase 1 progresses if that would be helpful.

Response to Consultation Document Questions

1. *Are there other principles the Government should consider?*
   The principles contained in the Fire and Emergency Act are appropriate

2. *Which of the principles is/are the most important to you, and why?*

The Consultation rightly identifies that “universality”, “stability”, and “equitable/fairness” are the principles that deliberately need to be addressed in deciding a funding model – as “predictability” and “flexibility” are likely to be built naturally into the detail of the model.

3. *Do you agree with the summary of benefits to businesses and households?*
   Yes

4. *Which option do you prefer and why?*
   Prefer a “property and use-based” approach as this will likely best meet all of the principles of the Act. We disagree with any model that is based on value, since value has nothing to do with the risk that Fire and Emergency is primarily addressing.

5. *What are the likely issues or challenges with implementing these options?*
   Accessing reliable property data is likely to be the primary challenge (which should be capable of being solved) and subsequently, the method of collection will be a challenge because that involves a change in collection agency if shifted from an insurance model. The variable costs associated with contracting in specialised equipment (such as helicopters) for specific events will present a challenge that needs to be addressed, and could potentially involve a cost-recovery element that is a private cost (and therefore subject if necessary to private insurance).

6. *Is there another option or options the Government should consider?*
   The only other option to consider is that of the service being regarded as a public good funded predominantly from the taxpayers.
   As a matter of principle, consideration should be given to the possible appropriateness of ACC as a funder since the Fire and Emergency response is effectively containing costs that they would otherwise face.

7. *Do you agree with the summary of benefits to motorists?*
   Agree with the benefits to motorists – but why is it limited to “Motorists”? This should be a class of beneficiaries that covers all transport modes including buses, trains, trucks, motorhomes, etc. We request that if all transport modes are captured, then an equitable risk and response approach is taken in designing the model across all modes.

8. *Which option do you prefer and why?*
   A vehicle licencing-based approach is preferred.

9. *What are the likely issues or challenges with implementing these options?*
   This is probably the least challenging. Collection via NZTA licencing seems logical.

10. *Is there another option or options the Government should consider?*
    No

11. *What do you like or dislike about these options?*
    Weight needs to be given to the public good aspects of Fire and Emergency – such as availability to respond to medical events, natural disasters and events that represent a risk to the national economy and the well-being and international reputation of the residents of New Zealand. Coupled with our expectation that all Crown assets/beneficiaries that naturally fall within the funding groups should be paying the same as anyone else, it is likely that the Crown should be paying a lot greater contribution to Fire and Emergency than occurs in the current model.
    Similarly, Local Government assets that fall in beneficiary groups should be subject to the same levy, but we have no expectation of local government otherwise being a specific levy contributor or collection agent.

12. *What are the likely issues or challenges with implementing these options?*
    Having a “complete” proposal and good modelling available at Phase 2 is critical.

13. *Is there another option or options the Government should consider?*
    No

14. *Which option do you think is the most suitable and why?*
    Refer to body of our submission

15. *What do you like and/or dislike about the different collection mechanism options?*
    Refer to body of our submission

Kevin Ward
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