Stage 2 Cost Recovery Impact Statement

Proposals for levy rates to fund Fire and Emergency for the period 2026-2029

Agency Disclosure Statement

The Department of Internal Affairs (the Department) has prepared this Cost Recovery Impact Statement (CRIS) to analyse options for levy rates to fund Fire and Emergency New Zealand (Fire and Emergency) for the period 1 July 2026 – 30 June 2029.

The Department is the monitoring agency for Fire and Emergency (a Crown Agent) and administers the Fire and Emergency New Zealand Act 2017 (the FENZ Act).

Constraints on the policy development process

Part 3 of the FENZ Act, which establishes the new levy system, comes into force on 1 July 2026. However, the insurance sector, which collects and pays the levy to Fire and Emergency has consistently advised that they need at least 18 months to implement the new levy system and any associated levy regulations.[1] To provide this time, regulations must be in place by December 2024.

Time and data constraints limited analysis around alternative options for the overall costs that need to be recovered by Fire and Emergency and the levy increase required to meet these. Alternative options that would reduce levels of service are not explored and analysis of options for cost savings are limited.

In April 2024, the Minister of Internal Affairs (the Minister) sent a letter to Fire and Emergency seeking analysis on options for lesser increases to levy revenue than it had proposed (which would require Fire and Emergency to make cost savings). [2] The focus of the request was for options that would minimise financial burden on levy payers while still allowing the organisation to provide the required services and invest in future needs. The Minister subsequently accepted the range of options proposed by Fire and Emergency. This also constrained the set of options for cost savings that were considered in policy development.

Time and data constraints have also impacted confidence in estimating how changes to the primary legislation will affect levy revenue (see discussion on removing the ability to calculate levy on the indemnity value of property below).

In developing our analysis, we rely heavily on the information provided by Fire and Emergency. We have a limited understanding of the technical processes that go into projecting costs, projecting underlying growth in the levy base, the cost allocation process

[1] The insurance sector advises that not having this time increases the likelihood of miscalculating levy payments which would lead to significant penalties.

[2] The letter has been published on the Department's website at www.dia.govt.nz/firelevy.

and how the size of policyholder groups is used in producing levy rates. This requires some trust that the methodologies used by Fire and Emergency are robust.[3]

Options that would require amendments to primary legislation have not been considered. The Minister has indicated to Cabinet colleagues her intention is to complete regulations to finalise the details of the new levy system. Broader changes to the primary legislation would require a further deferral to the beginning of the new levy system. The original intent of the FENZ Act was that the transitional levy would be replaced with the new levy system by 2019. There have subsequently been two Amendment Acts, a review of the funding system for Fire and Emergency[4], and two deferrals to the commencement of the new levy system. We consider there has been extensive consideration of the primary legislation and that a further delay, with the continuation of the transitional levy, would not be desirable.

Assumptions and limitations in calculating costs and revenue

Setting levy rates requires estimating costs over the levy period (July 2026 – June 2029). The estimated costs in this analysis assume Fire and Emergency does not make major changes to key parameters that affect its costs.[5] Estimates of costs also assume that there are no significant material changes in the demands for Fire and Emergency services.

Due to time constraints, Fire and Emergency has not completed detailed analysis of the impact to its service delivery of any changes to the above factors in time for decisions on costs to be taken and for the analysis outlined in this CRIS. This has limited options for cost savings explored in this CRIS.

In April 2024, Cabinet agreed to change which types of property will be exempt from paying levy when the new levy system is introduced in 2026. In summary, there will be fewer properties exempt from the levy. This implies there will be some increase in levy collected. However, Fire and Emergency has assumed that changes to the overall base of leviable property would sit within the margin of error for revenue estimates (less than 1%)[6], so has not incorporated these changes in its modelling. There is also a lack of quantifiable data available to validate and rely on to model the impact of the change to an exemption status. The Minister has decided to discount levy costs for some property types and reintroduce two exemptions. If Cabinet approves these decisions, this would greatly reduce the risk of over collecting levy.

[3] Fire and Emergency has advised that it has engaged Sapere Research Group to review its levy modelling. Fire and Emergency note that a preliminary report indicates that the modelling approach for determining levy rates is consistent with the requirements under Part 3 of the FENZ Act. The report notes the modelling approach appears logical, utilizes available information appropriately, and draws on relevant data sources. However, the review highlighted that changes to exemptions represent a key uncertainty. Additionally, the sensitivity of the model is influenced by assumptions related to growth and insurance penetration. There were some errors identified, but the reviewers acknowledged these were very minor.

[4] The outcome of the funding review was to retain the insurance levy model (as opposed to a model of collecting levy through local government), with some amendments to reduce administrative complexity of the levy (passed in 2023).

[5] This includes: 1.) workforce numbers and working patterns; 2.) the existing network of stations: 3.) Fire and Emergency's service delivery approach; 4) current service levels and activities; 5) end of economic life asset replacement activities.

[6] One exception is forestry, if charged at the full non-residential levy rate. However, the proposed discounted rate (discussed further below) would bring forestry within the margin of error.

Under the transitional levy, levy payments can be calculated on either the sum insured value or the indemnity value of an insured property. Under the new levy, the FENZ Act will require levy payments to be calculated on the sum-insured value of a property. This removes the ability to calculate levy on the indemnity value of a property (its depreciated value). Without reducing the levy rate for non-residential property, non-residential policyholders will pay more overall. 9(2)(b)(ii) [redacted]

Limitations on equity

Fire and Emergency developed a method to estimate the value that different types of property gain from its services and therefore the levy that owners of those properties should pay. The cost allocation methodology does not account for variation in risk factors or costs of responding to more specific property types. It also does not allow for distinctions between the different beneficiaries of a response where a range of different parties may be impacted. These factors limit the level of equity (recovering cost in line with value received) achieved by the cost allocation methodology.[8]

Limitations on incident reporting data and time have meant that where we have assessed specific property types, the options for caps or discounted rates cannot align with a robust estimate of the value that those property types received. This leads to some uncertainty of what level of discounted rates or caps would be appropriate. In developing options, we have applied our judgement by considering the incident reporting data (for instance, if the number of incidents for a property type is low, or if incident data is non-existent, this would contribute to significant discounts through lower rates or caps) and the level of impact on insurance costs for the particular sector (if the impact is very high, this also leads to options for rates or caps that would significantly lower levy costs).

9(2)(b)(ii) [redacted]

[8] We note that a more nuanced cost allocation method would likely be costly to implement, and creating more policyholder groups would also add administration costs.

The FENZ Act establishes the scope of how the levy can be applied to different property types and constrains options for how costs can be allocated or collected. Regulations must determine a uniform levy amount for all motor vehicles, not allowing for differentiation between different vehicles. All other property must be charged as a proportion of the sum-insured. The FENZ Act does not allow for other forms of cost recovery, such as the use of call-out fees.

The insurance levy model itself limits the ability for our proposals to achieve equity. Charging a levy on insurance contracts requires insured property owners to subsidise Fire and Emergency's costs for those that do not take out insurance. Some property is not insurable, or insurance may be uneconomical, but is still vulnerable to incidents requiring a Fire and Emergency response. Insurance policyholders will have to cover the costs of these benefits.

Quality Assurance

The Department's Regulatory Impact Analysis panel (the panel) has reviewed the *Stage 2 Cost Recovery Impact Statement - Proposals for levy rates to fund Fire and Emergency New Zealand for the period 2026-29* (the CRIS) in accordance with the quality assurance criteria set out in the CabGuide.

The panel members for this review were:

- 9(2)(g)(ii), Principal Advisor Policy Capability (Chair)
- 9(2)(g)(ii) Principal Advisor, Ministry for Primary Industries (External Member)
- 9(2)(g)(ii), Senior Policy Analyst (Member)
- 9(2)(g)(ii), Policy Analyst (Secretariat)

The panel considers that the information and analysis summarised in the RIA *partially meets* the quality assurance criteria.

The CRIS does not meet the convincing criterion and is only partially complete as a full range of options for the overall costs to be recovered and levy increase required to meet these are not explored. An earlier assessment of an interim CRIS for levy rates found that analysis was made in the context of maintaining current levels of service and did not explore options for cost savings or higher or lower levels of service on projected revenue needs. It noted a more complete and robust assessment of options will be required for final levy decisions.

The final CRIS continues to focus on the Fire and Emergency maintaining current levels of service. Alternative options that would reduce levels of service are not explored but there is further analysis of options for cost savings. The CRIS sets out that this analysis was limited by time constraints in combination with a preliminary decision to progress with a levy increase that supports moderate cost savings. It notes reducing Fire and Emergency services would impact on New Zealanders' safety and the potential challenges with exploring options that reduce services. A fuller range of options for overall costs and the associated levy increase should be explored for the next levy period.

The remainder of the CRIS is complete and sets out where analysis is lacking due to time constraints and limited data. The analysis of the specific levy rates for insurance policy holders is detailed and informed by consultation. The CRIS explains a technical topic reasonably clearly.

27 August 2024

Gina Smith

General Manager

Policy Group, Department of Internal Affairs

Contents

Glossary

Terms	Definitions
Levy rate	This is the rate charged on an insured property for every $100 of insurance value. Levy rates apply to residential, personal and non-residential property.
Levy amount	This is a dollar figure levied from all property within a policyholder group (as distinct from a levy rate where the amount paid depends on the insurance value of a property). For this levy system only motor vehicles are charged a levy amount.
Caps	A limit on how much of the insured value of a property is levied. A lower cap requires a higher levy rate to collect the same level of revenue.
Sum-insured value	In simple terms, this is the maximum amount payable when the property is damaged or lost. This is limited to damage by fire in the FENZ Act. A full definition is outlined in section 81 of the FENZ Act.
Indemnity value	This represents the current value of a property. It incorporates depreciation so this value is generally less than the sum-insured value.
Net cost	The term is used as defined by section 142(2) of the FENZ Act. In simple terms, it is the total cost (both direct and indirect) of Fire and Emergency performing its functions, less non-levy revenue (e.g. the Crown contribution of $8 million per year).
Growth in levy base	This is the underlying growth in revenue driven by changes to value of property insured (driven by inflation and increased size of policyholder groups). This excludes any changes to revenue due to a change in levy rates.
Levy revenue increase	This terminology is used to mean revenue increases driven by increases to levy rates (as distinct from revenue increase driven by growth in the levy base). Fire and Emergency now advise that "revenue uplift" would be more accurate, but we have kept to the terminology of the interim CRIS.
Fire appliances	The term Fire and Emergency uses for fire trucks.
Cash position	This is the amount of money that Fire and Emergency holds at a point in time (or how much Fire and Emergency would be in deficit if the figure is negative).
Policyholder	This is the owner of an insured property that is covered by the levy.

Policyholder group	These are property types that are treated as a group, or category, for the purposes of applying a levy rate or setting a levy amount (e.g. insured cars and trucks are part of the 'motor vehicle' policyholder group).

Executive summary

A new insurance levy will replace the current insurance levy that funds Fire and Emergency New Zealand (Fire and Emergency) from 1 July 2026

1. The FENZ Act established Fire and Emergency as an entity in 2017 (this replaced the New Zealand Fire Service and the Rural Fire Authorities). The FENZ Act also provides a framework for a levy on insurance to fund Fire and Emergency's activities. It sets out that levy will be charged as a fixed amount on contracts of motor vehicle insurance, and a rate per dollar insured against fire damage on any other property. The changes to the levy system arising from the FENZ Act are due to come into force on 1 July 2026. The new levy will replace the transitional levy that currently funds Fire and Emergency.[9]

2. The levy rates must be set in regulations. Section 142 of the FENZ Act outlines the process for determining levy rates. The Minister must estimate the amount of revenue Fire and Emergency needs over a three-year period, and the proportion of this revenue to be met by the levy. To determine the levy rates necessary to meet these costs, the Minister must consider the size of the insured property base from which the levy is to be drawn. This CRIS considers levy rates for the first three-year levy period (1 July 2026 – 30 June 2029).

Fire and Emergency has estimated its costs over the levy period, and allocated these costs to different insurance policyholder groups

3. Fire and Emergency has estimated its net costs at $2.75 billion across the levy period. The Minister has decided on a preliminary basis to increase levy revenue by 2.2% to meet this cost. She has also set a savings target of $60 million between now and the end of the levy period (this includes 2024 and 2025, before the levy period). The savings target was not incorporated into the estimate of net costs due to uncertainty of when and how it will be achieved.[10]

4. Fire and Emergency has allocated its projected costs to different policyholder groups based on data it collects about the incidents it responds to. The cost allocation methodology divides stakeholders into three groups:

   - Motor vehicle policyholders;
   - Residential and personal policyholders; and
   - Non-residential policyholders (covers all other property types).

[9] The transitional levy is also a levy on insurance contracts, but its settings are based on the design of the levy that funded the New Zealand Fire Service (disestablished in 2017).

[10] The savings target does feature in the discussion on options for levy revenue increases further below.

This CRIS includes updates to proposals for levy rates consulted on by Fire and Emergency

5. Fire and Emergency led public consultation on proposed levy rates in April and May 2024, based on its cost allocation methodology. Levy rates proposed here incorporate updated data, as well as feedback received during consultation.

6. This CRIS proposes setting levy rates for each policyholder group that will raise the total amount of revenue allocated by the Fire and Emergency model. **Table 1** summarises levy rates for the three policyholder groups.

Table 1: Proposed levy by policy holder group (GST excl.)

Policy Holder Group	Proposed levy rate (1 July 2026 to 30 June 2029)
Insurance for motor vehicles	$39.00 (flat amount for each motor vehicle insured, including third party)
Insurance for residential buildings and personal property	10.04 cents per $100 insured. Maximum levy amount at sum-insured for: Buildings $100,000; Personal property $20,000
Insurance for other property	7.26 cents per $100 insured. No maximum levy amount applies

7. Motor vehicle policyholders will face a steep rise in levy costs from 1 July 2026. However, we do not recommend a discounted motor vehicle amount, as this increase corrects an existing under contribution by motor vehicle owners.

8. Since consultation, we have updated the proposal to lower the cap on levy rates for residential and personal property. Almost all residential and personal property have a value above these cap levels which means policyholders effectively pay a flat levy amount. This proposal is simpler to administer, and we consider it more equitable.

9. The proposed non-residential levy rate is significantly lower than the rate consulted on in April and May 2024. It was clear that levy may be over-collected on non-residential property if the rate was not lowered after incorporating an estimate of the impact of moving from calculating levy on the basis of the indemnity value to sum-insured. The indemnity value of a property is generally less than its sum-insured value (although we understand that in some cases it may be higher when a client with a large portfolio insures on first loss).

10. Feedback received during consultation focused on the impact of the non-residential levy on insurance costs for businesses, particularly in sectors impacted by changes to levy exemptions. We recommend additional proposals for specific property types to mitigate the impacts of the levy on insurance costs. **Table 2** outlines the proposals.

Table 2: Summary of proposals for specific property types

Property type	Summary of recommendations
Aircraft	• Cap the value to which the levy applies at $100,000 per aircraft that fly domestically (maximum levy payable of $72.60 per aircraft). • Amend the exemption for aircraft that fly overseas by not requiring that they 'regularly' fly overseas to qualify.
Forests	• Set the levy rate at 25% of the full non-residential rate.
Livestock	• Set the levy rate at 25% of the full non-residential rate.
Marine vessels	• Reintroduce the exemption. • Extend the exemption to boats stored on land
Transport infrastructure (roads, bridges, streets, paths and tunnels)	• Reintroduce the exemption.
Contract works insurance contract	• Set the levy rate at 50% of the full non-residential rate.

Part 1: Status quo

Fire and Emergency was established in 2017 and provides a broad range of critical public services

The establishment of Fire and Emergency in 2017

11. Fire and Emergency New Zealand (Fire and Emergency) was established in 2017, merging urban and rural fire services into a single unified national organisation. The merger sought to address fragmented governance, funding and service delivery arrangements, among other things, to ensure fire and emergency services could be effectively and efficiently delivered. Fire and Emergency is established under the FENZ Act (the FENZ Act replaced the Fire Service Act 1975 and the Forest and Rural Fires Act 1977).

12. A unified Fire and Emergency needs to maintain the capacity for business-as-usual responses across New Zealand, while attending large-scale incidents such as the Tasman wildfires (February – March 2019), the New Zealand International Convention Centre fire (October 2019) or widespread flooding and cyclone damage across the northern and eastern regions of the North Island (early 2023). These incidents require Fire and Emergency to bring firefighters, fire appliances, and equipment from the length and breadth of the country. This ability of Fire and Emergency to surge its capacity to meet any situation that may arise is essential to the safety of New Zealanders.[11]

Objectives and functions of Fire and Emergency

13. Under section 10 of the FENZ Act, Fire and Emergency's principal objectives are to:

    13.1 reduce the incidence of unwanted fire and the associated risk to life and property; and

    13.2 protect and preserve life, prevent or limit injury, and prevent or limit damage to property, land or the environment (in relation to its 'main' and 'additional functions' outlined below).

14. The FENZ Act outlines 'main' and 'additional' functions for Fire and Emergency. 'Main' functions are those that Fire and Emergency must carry out. 'Additional' functions are those that Fire and Emergency can assist with to the extent that it has the capacity and capability to do so and that it retains the capacity and capability to perform its 'main' functions efficiently and effectively. The functions are listed in **Table 3**.

[11] This leads to a need to budget for emergency peak resource payments and paying career staff for 'readiness'.

Table 3: Fire and Emergency's main and additional functions

Fire and Emergency's 'main' functions[12]	Fire and Emergency's additional functions[13]
• to promote fire safety, including providing guidance on the safe use of fire as a land management tool • to provide fire prevention, response and suppression services • to stabilise or render safe incidents that involve hazardous substances • to provide for the safety of persons and property endangered by incidents involving hazardous substances • to rescue persons who are trapped as a result of transport accidents or other incidents • to provide urban search and rescue services • to efficiently administer the FENZ Act	• responding to medical emergencies • responding to maritime incidents • performing rescues, including high angle line rescues, rescues from collapsed buildings, rescues from confined spaces, rescues from unrespirable and explosive atmospheres, swift water rescues and animal rescues • providing assistance at transport accidents (for example, crash scene cordoning and traffic control) • responding to severe weather-related events, natural hazard events and disasters • responding to incidents in which a substance other than a hazardous substance presents a risk to people, property or the environment • promoting safe handling, labelling, signage, storage and transportation of hazardous substances • responding to any other situation if Fire and Emergency has the capability to assist

Performance targets provide a measure of how well Fire and Emergency is fulfilling its functions and objectives

15. Fire and Emergency reports on performance targets, which we consider are the best measure available of service levels. The organisation generally performs well on incident response times in relation to its functions under the FENZ Act. The 2022/23 annual report shows that it meets, or is close to meeting, its targets for response times as listed in **Table 4**.

12 Section 11 of the FENZ Act.

13 Section 12 of the FENZ Act.

Table 4: Fire and Emergency's performance measures for 2022/23[14]

Performance measure	Target	Actual	Met
Percentage of structure fires arrived at by career crews within 8 minutes.	80%	75%*	✗
Percentage of structure fires arrived at by volunteer crews within 11 minutes.	85%	80%	✗
Percentage of vegetation fires arrived at within 30 minutes (anywhere in New Zealand).	90%	95%*	✓
Percentage of Communications Centre events dispatched for all incidents in rural environments within 2 minutes of receiving the 111 call.	85%	87%	✓
Percentage of Communications Centre events dispatched for all incidents in urban environment, within 90 seconds of receiving the 111 call.	85%	87%	✓
Percentage of hazardous substances incidents arrived at by crews with specialist resources within 60 minutes.	85%	96%*	✓
Percentage of motor vehicle accidents arrived at by crews with specialist resources within 30 minutes.	90%	97%*	✓
Percentage of career crews who respond to medical emergencies within eight minutes.	85%	82%*	✗
Percentage of volunteer crews who respond to medical emergencies within 11 minutes.	80%	74%	✗

*** Incident reporting data was affected by industrial action in 2022. Percentage figures with an asterisk indicate where the figures are taken from the period 1 January 2023 – 30 June 2023.**

Fire and Emergency will be funded by a redesigned insurance-based levy from July 2026

16. The FENZ Act provides for an insurance-based levy as the primary source of funding for Fire and Emergency. The levy will operate through a combination of provisions in the FENZ Act and regulations. A transitional levy, established when Fire and Emergency was formed in 2017, will continue funding Fire and Emergency until the new levy becomes operational. The transitional levy is also on insurance and based on the design of the levy that funded the urban fire services, under the Fire Service Act 1975.

17. Part 3 of the FENZ Act establishes the broad framework of the new levy. The FENZ Act provides for regulations to be made that determine:

    17.1 an annual levy amount payable for a motor vehicle that is the subject of a contract of motor vehicle insurance; and

[14] From the 2022/23 annual report - available from fireandemergency.nz/about-us/key-documents/.

17.2 an annual rate of levy, calculated as a proportion of the sum-insured, payable in respect of any other property, other than a motor vehicle, that is insured under a contract of fire insurance.

18. Regulations can be made under sections 141-143 of the FENZ Act to outline further detail of the new levy. These regulations may:

18.1 prescribe different rates of levy for residential property, personal property, any other property or class of property;

18.2 prescribe maximum amounts of levy payable for residential property; personal property; any other property or class of property; and

18.3 provide for an exemption from the levy for any property or class of property, any contract of insurance or class of contract of insurance, or any policyholder or class of policyholder.

19. Section 142 of the FENZ Act requires the Minister to estimate FENZ's net costs for an upcoming period at least once in every three years. This effectively means levy rates will be reviewed at least every three years.

The new levy will no longer be calculated on indemnity value

20. The FENZ Act establishes that levy payments will only be calculated on the sum-insured value of any property under a contract of fire insurance.[15] This is the maximum amount payable when the property is damaged by fire (approximating the replacement value).[16] The transitional levy provides levy payers with the option of calculating levy based on either sum-insured or on indemnity value (the depreciated value of the property). Removing the option to calculate levy on indemnity value will increase the amount of levy payable for some policyholders. This change was intended to better provide for equity in the levy system, as the sum-insured value was viewed as providing a better basis for estimating the benefit received by Fire and Emergency's services.

21. Indemnity value is the depreciated value of an asset, rather than what the insurer has agreed to pay out if the property is lost. The insurance sector supported this change on the basis it would provide more consistency for calculating levies. The change will only affect commercial property, as indemnity value is not used to calculate levy on motor vehicles or residential/personal property. The impacts of this change are uncertain but are estimated in the following sections of this CRIS.

[15] The FENZ Act removed the ability to calculate levy on indemnity value when it was enacted in 2017, only allowing for calculating levy on the 'amount insured'. A subsequent amendment in 2023 replaced the 'amount insured' terminology with 'sum-insured'.

[16] A more extensive definition of sum-insured, including examples, is provided under section 80 of the FENZ Act.

Cabinet agreed to levy exemptions in March 2024

22. Cabinet agreed to the types of property to be exempt from paying the new levy (EXP-24-MIN-0009), shortly before approving consultation on levy rates. Exemptions identified which policyholders had no potential to benefit from Fire and Emergency services.[17] The Department led targeted consultation on exemption proposals in 2022 and 2023, and the exemption decisions agreed by Cabinet in March 2024 are listed in **Appendix A**.

23. Decisions were sought on exemptions prior to consultation on levy rates in order to seek information from policyholders for currently exempt property about the potential impacts of charging a levy. Some examples of exemptions Cabinet agreed to remove were forests, livestock, crops and hazardous substances.

24. Impact analysis that supported decisions on exemptions to the levy noted some further exemptions may need to be considered if no levy rate options could be found that aligned with the principles outlined in section 80 of the FENZ Act. This CRIS considers options for further exemptions informed by consultation.

Fire and Emergency has consulted publicly on interim levy rate proposals

25. Fire and Emergency led public consultation between 8 April and 17 May 2024 on levy rates and amounts to apply for the period 1 July 2026 – 30 June 2029. These proposals were included in a consultation document approved for public release by Cabinet on 2 April 2024 and were supported by the Interim CRIS.[18] Consultation also sought feedback on the activities Fire and Emergency planned to undertake for the levy period.

26. Fire and Emergency proposed an increase to levy revenue of 5.2%. Proposals included:

    26.1 a flat rate of $40.12 for each motor vehicle per annum;

    26.2 a levy rate of 1.85 cents per $100 sum-insured for residential and personal property, capped, with;

        26.2.1 a maximum levy amount payable on residential dwellings at a sum-insured of $625,000 (with maximum levy amount payable of $115.60 per annum); and

        26.2.2 a maximum levy amount payable on personal property (contents policies) at a sum-insured of $75,000 (with maximum levy amount payable of $13.90 per annum); and

    26.3 a levy rate of 11.51 cents per $100 insured for all other property (property with $1 million sum-insured value would be levied $1,151 per annum).

[17] Detail on policy for exemptions is available in the RIS published at www.treasury.govt.nz/publications/risa/regulatory-impact-statement-exemptions-fire-and-emergency-levy.

[18] The Interim CRIS for levy rates is published at www.treasury.govt.nz/publications/risa/stage-2-interim-cost-recovery-impact-statement-fire-and-emergency-part-3-levy-rates-2026-2029.

27. Fire and Emergency received 841 submissions. This included feedback from private individuals and from insurers and insurance brokers, forestry, aviation, marine, local government, farming, property and business, and transport. We also undertook follow up consultation and information gathering with some sector stakeholders.

28. Feedback received during consultation has been summarised where relevant in the options analysis sections of this CRIS. Major themes from consultation feedback included:

    28.1 noting the inequity of an insurance-based model, where policyholders were expected to cover the costs of services that benefitted everyone;

    28.2 that Fire and Emergency had not adequately justified its proposal to increase levy revenue by 5.2%;

    28.3 noting the inequity of dividing property into one of only three broad groups, as it means treating property with vastly different risk profiles equally; and

    28.4 Fire and Emergency should continue delivering on its main functions of putting out fires and attending motor vehicles; and

    28.5 Some submitters suggested Fire and Emergency should 'stay in its lane' (i.e. not provide services that other service providers are delivering) and, in particular, some suggested Fire and Emergency respond to fewer medical responses in particular (or at least be funded to do so).

The Minister of Internal Affairs has made policy decisions relevant to this CRIS and other levy regulations

29. The Minister of Internal Affairs has made decisions on the policies she will recommend to Cabinet. These include:

    29.1 Net costs for the levy period (effectively what Fire and Emergency will need to collect to fund activities), approximately $2.75 billion.

    29.2 The levy increase required to ensure that cost is met (2.2% increase).

    29.3 The levy rates and amounts outlined in this document for:

        29.3.1 The main policy holder groups: non-residential, residential, personal and motor vehicle;

        29.3.2 Specific treatment for aircraft, forests, livestock and contract works; and

        29.3.3 The reintroduction of exemptions for marine vessels and transport infrastructure (previously determined to be non-exempt by Cabinet [EXP-24-MIN-0009].

30. Along with decisions on cost recovery, other regulations must be made to support the administration of the levy. A separate RIS for those policy issues has been completed concurrently with this CRIS. The policy proposals in that RIS cover regulations for calculation of levy, a refunds process, a waivers process, and required information to be provided with a monthly levy return. The Minister has also made policy decisions on these issues, and they will be considered at Cabinet with the issues covered by this CRIS.

These proposals are made in the context of a recent increase to the transitional levy and a Crown loan

31. In July 2023, the Government agreed to increase levy revenue by 12.8%. This increase was primarily intended to address new costs associated with a collective employment agreement (CEA) between Fire and Emergency and the New Zealand Professional Firefighters' Union (finalised in December 2022).[19] These rate increases came into effect from 1 July 2024. The changes are outlined in **Table 5** below.

Table 5: Changes to levy rates in 2024 (under the transitional levy)

	Pre-July 2024	Post-July 2024
Motor vehicle	Flat amount of $8.45 per vehicle	Flat amount of $9.53 per vehicle
Non-residential (no cap)	10.60 cents per $100 insured	11.95 cents per $100 insured
Residential/Personal (caps of $100,000 and $20,000 respectively)	10.60 cents per $100 insured	11.95 cents per $100 insured

32. In November 2022, Cabinet approved a $75.4 million repayable loan to Fire and Emergency to enable it to settle the CEA [CAB-22-MIN-0520]. The loan was necessary to ensure that working cash reserves could be maintained until an adjustment to the transitional levy could occur. Repayments of this loan and interest costs will require expenditure during the levy period.

[19] The CRIS supporting the increase in rates for the transitional levy is available at www.treasury.govt.nz/publications/risa/cost-recovery-impact-statement-proposal-increase-transitional-levy-fire-and-emergency-new-zealand.

Summary of key milestones for implementing the new levy

Figure 1: Key milestones for implementing the new levy

2017	2019	2019-2021	2023
Fire and Emergency New Zealand Act 2017 passed. New levy system enacted, but with delayed commencement.	Minor amendments to levy provisions and deferred commencement of new levy.	Review of the funding system. Interrupted by reprioritisation due to COVID-19.	Minor amendments to levy provisions. Deferred commencement of levy again.
March - April 2024	**April - May 2024**	**June 2024**	**July 2024**
Cabinet agrees on Policy decisions for exemptions and for Fire and Emergency to consult on its proposals for levy rates.	Fire and Emergency undertook consultation on its policy proposals as required by the FENZ Act.	Minister made preliminary decision to increase levy revenue by 2.2%.	Minister made policy decisions on levy rates.
September 2024	**Sept - Nov 2024**	**December 2024**	**July 2026**
Cabinet to consider policy decisions on levy rates (as well as levy administration issues addressed in separate RIS).	Parliamentary Counsel Office to draft levy regulations.	Cabinet to consider levy regulations.	Levy provisions of the FENZ Act and regulations come into force.

Key

Fire and Emergency New Zealand Act 2017 (2017-2023)	Milestones passed for levy regulations (**Early 2024**)	Upcoming milestones for the levy (**Late 2024 – Mid 2026**)

Part 2: Cost Recovery Principles and Objectives

Principles

33. Section 80 of the Act sets out the purpose of Part 3 of the FENZ Act. Part 3 of the Act contains the relevant levy clauses. The purpose of Part 3 is to provide a levy that is:

    a. a *stable* source of funding to support Fire and Emergency in the performance of functions and duties and exercise of powers under this Act;

    b. *universal*, so that Fire and Emergency's costs are generally shared among all who benefit from the potential to use Fire and Emergency's services;

    c. *equitable,* so that policyholders should generally pay a levy at a level commensurate with their use of, or benefit from the potential to use, Fire and Emergency's services and with the risks associated with the activities that policyholders carry out (but without strict apportionment according to use, benefit, or risk having to be observed);

    d. *predictable*, so that policyholders and levy payers are able to predict the amounts that they will need to pay and Fire and Emergency is able to predict how much levy income it will receive;

    e. *flexible,* so that the levy can adapt to—

        i. changes in the use, benefit, or risk associated with those who benefit from the potential to use Fire and Emergency's services; and

        ii. variations in FENZ's costs; and

        iii. changes to the expectations of the Crown and the strategic needs of Fire and Emergency.

34. Treasury guidance indicates the importance of simplicity, so that a cost recovery principle is straightforward and understandable to stakeholders. This aligns with consistent feedback from the insurance sector about the need for a simple levy system.

Objectives

35. The principles outlined above provide the basis for the levy framework. When developing objectives for setting levy rates, we have determined which principles are most relevant when setting levy rates. For example, we consider the flexibility principle to have limited relevance to how much levy is paid.

36. We have assessed the proposals primarily for how they align with four overarching objectives primarily developed from the Act and Treasury guidance:

    36.1 **Universality** – whether the levy generally shares costs among all those who benefit from the potential to use Fire and Emergency's services;

    36.2 **Equity** – whether a policyholder is paying a levy at a level that is commensurate with their use of, or benefit from the potential use of, Fire and Emergency's services;

36.3 **Simplicity** – whether administration of the levy is straightforward and cost effective for insurers; and

36.4 **Insurance affordability** – whether the levy adds to the cost of insuring property to a point where it impacts the insurance market (e.g. policy holders consider under-insuring).

37. 'Insurance affordability' was introduced as an objective following consultation feedback that focussed on the potential impact of some of Fire and Emergency's proposals on insurance affordability. These concerns were raised in relation to proposals for changes to the levy for motor vehicles and property that would no longer be exempt from the levy.

38. The objectives of insurance affordability and equity can conflict. It may be equitable to charge certain policyholder groups more, due to the value they receive from Fire and Emergency. However, the additional charge could make insurance less affordable. There may have been some benefit to consider different weightings for these objectives to resolve potential conflicts, however, we did not do this in our analysis. We consider this conflict is most prevalent when considering options for motor vehicles. In this case, we did favour equity over insurance affordability. This was because we consider the equity benefits of our preferred option are clear, whereas the potential negative impact on insurance affordability of this option is unclear.

Part 3: The level of the proposed fee and its cost components

Design of cost recovery charges

Requirements of the FENZ Act for cost recovery

39. The procedure that must be used in developing the regulations is outlined in section 142 of the Act. This includes:

- that in at least every third financial year the Minister must estimate the net costs for an upcoming period; and
- determine the portion of net costs for the period that are to be met by levies.

40. Taking into account:

- an estimate of the total number of motor vehicles in respect of which the levy is payable;
- an estimate of the total sum-insured for property insured under contracts of fire insurance;
- an estimate of the total amount of exemptions and waivers from the payment of the levy;
- any amount in a preceding period by which actual levy income exceeded or was less than the actual net costs; and

- the benefit of maintaining the stability of each rate of the levy in the long term.

The FENZ Act cost recovery requirements are complied with across three main stages

41. The methodology used to design the proposed levy regime involves three distinctive components that are aligned with meeting the requirements of section 142 and 143 of the FENZ Act:

    - **Estimating the future costs** of Fire and Emergency for the levy period and any shift in revenue needed to meet those costs. This establishes the total pool of revenue to be collected from policyholder groups;
    - The transparent **allocation of costs** to activities to ensure costs are then allocated correctly to different policyholder groups. This establishes how much revenue must be collected from each policyholder group; and
    - Estimating the number, or value, of insurance policies within each policyholder group to then calculate the **levy rates** that are needed to collect the level of revenue required.[20]

Fire and Emergency's current costs

Fire and Emergency incurs substantial costs to deliver services to New Zealand

42. Fire and Emergency incurs both operational and capital costs to deliver its mandated functions under the FENZ Act. A substantial amount of Fire and Emergency's costs come from its fire related functions. Operational costs can be broken down into output classes (the broad functions that Fire and Emergency delivers). Budgeted operational costs for the 2024/25 year are in **Table 6** below:

[20] A levy amount for motor vehicles.

Table 6: Fire and Emergency's budgeted costs for output classes in 2024/25[21]

Output class	Budget 2024/25 ($ million)
Fire prevention including promotion of fire safety, compliance, and enforcement.	107.8
Fire response and suppression.	512.3
Render safe hazardous substances and provide for safety at incidents.	11.9
Rescue as a result of transport accidents and urban search and rescue (USAR).	132.4
Responding to other emergencies, including medical, maritime, other rescues and natural hazard events.	40.8
Total	**805.2**

43. Fire and Emergency also has a substantial capital expenditure programme to maintain and upgrade its asset base of approximately $1.5 billion.[22] The programme is funded through both existing cash reserves and accumulated depreciation expense.

44. The asset base includes fleet (for example, fire trucks and other vehicles), property (for example, fire stations and equipment depots), Information Communication Technology (ICT), and equipment (for example, breathing apparatus and incident ground control radios). This includes both rural and urban assets.

45. Varying asset management practices and the absence of cash reserves passed on from previous rural fire services has resulted in some assets requiring greater investment than originally anticipated in 2017. Budgeted capital spending for 2024/25 is shown in **Table 7** and results in a total yearly spend of $88.4 million.

[21] Statement of Performance Expectations, 2024/25

[22] Ibid

Table 7: Fire and Emergency's budgeted capital spend for 2024/25

Capital item	Budget 2024/25 ($ million)
Fleet	25.0
Property	38.4
ICT	12.0
Equipment	13.0
Total	**88.4**

46. Fire and Emergency's capital expenditure is fundamental to its ability to maintain service levels (for example, arriving at an event on time as outlined in **Table 4**). Ensuring that fire stations, fire appliances and other supporting assets are well maintained and performing helps to ensure that Fire and Emergency can maintain and improve response times and other important performance measures.

47. In 2022/23, personnel costs were $485 million and made up over 64% of Fire and Emergency's operational costs for that year. Personnel costs are budgeted at $526 million for 2024/25. The numbers of salaried staff and volunteers as of 30 June 2023 were:

    47.1 career firefighters - 1,807;

    47.2 volunteer firefighters – 8,547;

    47.3 management and support – 1,138;

    47.4 volunteer brigade support – 2,117; and

    47.5 volunteer operational support – 1,168.

Fire and Emergency's costs during the levy period

Fire and Emergency has estimated its net costs at $2.75 billion

48. In its proposals for consultation in April and May 2024, Fire and Emergency estimated its net costs for the levy period at $2.69 billion ($897 million per year). This compares with net costs budgeted for 2024/25 of $848 million. Some of this cost increase would be met by projected growth in the levy base (growth in the number or value of insured property), and some by an increase in levy revenue (Fire and Emergency proposed a 5.2% increase). Fire and Emergency considered that $2.69 billion in net costs would enable it to maintain its levels of services, workforce, activities, without further increases. This higher level of revenue was intended to meet forecast salary increases and increased needs to respond to asset deterioration, deferred maintenance needs and seismic strengthening requirements.

49. In June 2024, Fire and Emergency provided an update of its estimate of net costs to $2.75 billion over the 2026-2029 levy period. A table of net costs for the period 2026-2029 is provided as **Appendix B**. Key drivers for increase include:

    49.1 updates to wage inflation projections in line with The Treasury's assumptions underpinning the Budget 2024 process (increasing personnel costs from $1.73 billion to $1.77 billion); and

    49.2 identified additional spending on property, fleet, ICT, equipment and logistics after a recent asset management planning exercise identified greater capital investment would be needed to meet health and safety standards (capital costs projected to increase from $327 million to $364 million).

Cost savings analysis did not incorporate reductions in service levels

50. Time constraints limited our ability to explore cost saving options and advise the Minister either before she wrote to Fire and Emergency or after Fire and Emergency provided its analysis. Options to reduce service levels has not been the focus of analysis. Instead, more consideration was given to savings that could be made while mitigating the likely impact on service levels.

51. We also note that reducing service levels would have a material impact on New Zealanders' safety. As outlined in paragraph 13 above, Fire and Emergency's objectives include protecting and preserving life, preventing or limiting injury, preventing or limiting damage to property, land and the environment. Reducing service levels would mean Fire and Emergency would be less able to fulfil those objectives.

52. We note some stakeholder feedback suggested that Fire and Emergency focus more on its core activities (with medical responses being the main example of an additional function that submitters considered other services should provide for). Consideration could be given to reducing the "additional functions" under section 12 to reduce net costs. Time limitations contributed to a lack of exploration of this approach. However, we anticipate there would be challenges to specifically reducing costs under the section 12 functions:

    52.1 **Identifying costs that can be attributed to section 12 functions is difficult** - For any one incident, it is difficult to disambiguate the costs associated with a section 11 function from the section 12 function (e.g. attending a motor vehicle incident to rescue people may incorporate a medical response). Fire and Emergency does not currently have a clear breakdown of costs that determines the allocation between section 11 functions and section 12 functions.[23]

[23] Fire and Emergency notes that a large proportion of its costs are incurred to maintain its section 11 functions, particular in respect of capacity and capability. That investment also supports its functions under section 12.

52.2 **Removal or reduction of service in section 12 functions would have broader impacts** - Fire and Emergency, and predecessor organisations, have been performing these additional functions since before 2017. Making decisions in isolation to reduce or eliminate the costs of these functions would have broader impacts on emergency management sector. We have provided the example illustrating this issue for medical responses in **Appendix C**.

Fire and Emergency provided analysis on cost savings, but we considered further work would be needed to make effective decisions

53. As noted above, the Minister wrote to Fire and Emergency seeking analysis of options that could involve a lesser revenue increase than the 5.2% increase it proposed in consultation. Fire and Emergency subsequently proposed the following range of options:

    53.1 0% change – minimum of **$115 million in savings**[24] needed by June 2029 (could contribute significantly to reducing net costs);

    53.2 2.2% increase of levy revenue – minimum of **$62 million in savings** needed by June 2029 (could contribute moderately to reducing net costs); and

    53.3 3.6% increase of levy revenue – minimum of **$30 million in savings** needed by June 2029 (could contribute modestly to reducing net costs).

54. Fire and Emergency's analysis included two approaches to achieve cost savings. These approaches were intended to mitigate the immediate impact on frontline service delivery. The approaches are described in **Table 8** below and a list of the 'strategic initiatives' is provided in **Appendix D**[25]:

Table 8: Fire and Emergency's initial approach to cost saving options

Approach	Broad impacts
Approach 1: Reducing expenditure on strategic initiatives	– More immediate risk to frontline services (e.g. health and safety initiatives would be defunded under the $115 million savings option). – Longer term impacts on service delivery (by not investing in "key enablers" – e.g. technology replacement).

[24] These savings figures are the distance between projected cash position by the end of the levy period (30 June 2029) and the minimum cash reserve of $50 million.

The analysis presented by Fire and Emergency had not incorporated shifts in net costs or updated projections of levy revenue – for the purposes of this section, the savings needed is more relevant than the revenue change.

[25] Examples of strategic initiatives include workplace culture improvement (work responding to a review of the Public Sector Commission), replacing the legacy (2001) Financial Management Information System, and training and equipping firefighters to work safely in water.

Approach 2: Reducing expenditure on strategic initiatives *and* on capital programme	– Some risk to frontline services, but less than Approach 1, as more strategic initiatives are retained (e.g. health and safety initiatives would be maintained under all cost savings options). – Reduced reliability of fire appliances and equipment in responding to incidents. – Longer term impacts on service delivery (by not investing in "key enablers" – e.g. technology replacement).

55. While these cost savings were intended to enable service levels to be maintained in the short-to-medium term, they involve deferring some important changes. For instance, one of the cost saving measures would be to delay the establishment of the remaining local advisory committees (7 of 16 have been established so far). The establishment of local advisory committees were a key part of the reforms when Fire and Emergency was established in 2017.[26]

56. 9(2)(g)(i) 

The Minister has set a savings target of $60 million

57. Fire and Emergency subsequently advised on further proposals for cost savings, but these were not sufficiently progressed to incorporate into our analysis and advice. The Minister then determined a savings target of $60 million for Fire and Emergency between now and the end of the first levy period (this incorporates the time prior to the levy period). Fire and Emergency will be required to develop a plan for achieving these savings and will report to the Minister on progress.

58. We considered advising that this savings target be incorporated into the estimate of net costs (e.g. subtracting $60 million from the estimated net costs $2.75 billion). However, our view was that a lack of clarity of how much of these savings would be made during the levy period or prior to the levy period, and where costs would be reduced, made it difficult to provide a robust estimate. We decided to retain the recommendation to estimate net costs at $2.75 billion.

59. The savings target, and its projected impact on Fire and Emergency's cash position, does feature in the analysis below on options for changes to levy revenue.

Options for revenue changes

Higher projected growth in the levy base enabled consideration of lesser increases to levy revenue

[26] Local advisory committees are intended to counterbalance the centralisation of power that came with amalgamating the National Fire Service and the Rural Fire Authorities into one entity (Fire and Emergency).

60. As noted above, Fire and Emergency initially considered a 5.2% increase in levy revenue would be required to maintain its service levels. In June 2024, Fire and Emergency advised that due to an update of projected growth in its levy base (from 2.7% to 3.4%) a levy revenue increase less than 5.2% would still support its costs.[27] **Table 9** below shows the difference between the figures produced under the old projections (used for the Interim CRIS) and the updated forecasting provided by Fire and Emergency for the cash position at the end of the first levy period (June 2029).

Table 9: Comparison of projected cash position at June 2029 under different levy revenue increases*

Cash position[28]	0%	2.2%	3.6%	5.2%
Early 2024 projection (millions)	-$65	-12	$20	$58
June 2024 projection (millions)	**$57[29]**	**$116**	**$153**	**$196**

*** This table does not incorporate the savings target set by the Minister**

61. The shift in projected growth in the levy base enabled us to remove the options of increasing levy revenue by 3.6% or 5.2%. Instead, further consideration was given to a 0% change or a 2.2% increase.

While revenue should not exceed costs, we consider unpredictability in projecting levy revenue justifies proposals that may lead to some surplus revenue

62. **Table 9** indicates that a 0% change to levy revenue would provide enough cash to meet costs and maintain service levels. However, Fire and Emergency identified that lower than forecast growth in the levy base was a significant risk that could lead to much lower revenue and, potentially a cash deficit (and under recovery of costs). For example, if growth in the levy base stayed at its previous estimate of 2.7%, then there would be $120 million less collected in revenue between now and the end of the levy revenue. While we do not consider long term growth of 2.7% is likely, it is possible. The average annual growth rate of the previous levy was 2.64% in the five years following the Global Financial Crisis (2008).

63. Cost recovery should generally not exceed costs. However, we agree that uncertainty in projecting revenue (particularly over a five-year period) should allow for some latitude to set rates that may lead to over collection. The alternative is to introduce a risk of under collection and Fire and Emergency not meeting its costs which could affect its ability to deliver services. A judgement is needed on the balance of risk of under collection leading to services being affected compared with the principle of not over collecting on costs.

---

[27] We understand this change in the projection of growth in the levy base was agreed by the Fire and Emergency Board in April 2024. This was after analysis for the interim CRIS and Discussion Document was completed.

[28] The Early 2024 projection is based on net cost of $2.69 billion, while the June 2024 projection is based on net costs of $2.75 billion.

[29] Fire and Emergency hold a minimum cash reserve of $50 million. This is contingency in the case of a major event or other unforeseen costs. This means that, under a 0% increase to levy revenue, Fire and Emergency are projected to have $7 million more than their minimum reserves.

Option of 2.2% increase in levy revenue

64. If real growth in the levy base aligns with the current projection (3.4%), and the $60 million savings target is achieved, a 2.2% increase to levy revenue would lead to cash position of approximately $176 million[30] ($126 million above the minimum reserve) by the end of the levy period (June 2029). This would represent a significant over recovery of costs.

65. However, if growth in the levy base was 2.7%, the resultant cash position by June 2029 would be approximately $58 million and would not represent over collection. Current service levels would still be maintained with this lower level of growth in the levy base as now additional savings would be required.

66. It could be argued that a 2.2% increase to levy revenue still aligns with the principle of collecting of levy revenue up till the level of costs but represents a risk averse approach. We also note that the lack of certainty about the impact of removing the ability to calculate levy on indemnity value creates risk of under collection, which this option mitigates.

67. The next levy period (2029-32) will provide an opportunity to redistribute surplus through establishing lower levy rates. There are also advantages to this approach – it enables both the drive towards efficiency through the mechanism of the savings target, and provides financial security to make longer term investments into capital asset renewal, which is a critical need for Fire and Emergency.

Option of 0% change to levy revenue

68. For a 0% increase to levy revenue, there would be a cash position of approximately $117 million ($67 million over the minimum reserve). This would represent a more moderate over collection. In this scenario current service levels would be maintained. If there is 2.7% growth in the levy base, the cash position would be approximately -$3 million ($53 million below the minimum reserve) and would therefore require more savings to be made. We expect that creating these savings would impact on service levels to some degree.

69. A 0% increase to levy revenue would provide some benefits to levy payers by reducing costs, but we consider the impact would be limited (particularly for households). **Table 10** provides examples of annual levy costs for certain property types (assuming the other recommendations in this CRIS are agreed to).

Table 10: Comparison of costs under different levy revenue increases (GST excl)

[30] Note this figure may be higher due to additional revenue coming from interest on cash holdings.

Policyholder group	Annual levy paid for 0% increase option	Annual levy paid for 2.2% increase option
Residential property *Levy for any home with sum-insured value over $100,000*	$98	$100
Non-Residential *Levy for $1 million sum-insured value*	$710	$726
Motor vehicle	$38.16 per vehicle	$39.00 per vehicle

We have not formed a preference on levy revenue options but the Minister has decided on a 2.2% increase

70. We consider there are advantages and disadvantages to both revenue options, however we have not formed a preference. The remaining analysis in this CRIS assumes a 2.2% increase to levy revenue as this is what was the preliminary decision made by the Minister.

71. **Table 11** below outlines the forecast revenue and costs, and the resultant cash positions for the levy period under a 2.2% increase to revenue.

Table 11: Forecast cash flows from 2026/27 to 2028/29 with 2.2% increase to revenue (GST excl)*

	2026/27 $million	2027/28 $million	2028/29 $million
Opening cash and cash equivalents balance	**148**	**72**	**91**
Receipts from Levy[31]	818	931	963
Receipts from other income (incl. interest)	19	18	19
Operating expenses (cash)	(780)	(798)	(821)
Purchase of property, plant and equipment and intangible assets	(120)	(120)	(124)
Repayments of capital injection and finance leases	(9)	(9)	(9)
Interest paid	(4)	(3)	(3)
Closing cash and cash equivalents balance	**72**	**91**	**116**

[31] Total receipts from levy in 2026/27 is reduced by an estimated $77 million due to a one-month income delay in payments when the new levy comes into effect. This is because the new levy enables payments to be made one month later than is currently allowed. Fire and Emergency's cash reserve will never recover from the one-month delay in income. Instead, this delayed income will be represented in its balance sheets by an increase to is *accounts receivable*.

***This does not include increase in cash balance from the savings target**

Lack of alignment between the reduction in levy revenue increase and levy rates

72. Following the Minister's preliminary decision on levy revenue (going down from a 5.2% increase to a 2.2% increase), Fire and Emergency produced revised levy rates. The levy rates have not gone down in line with the change in levy revenue increase. **Table 12** below shows a direct comparison of rates produced for the interim CRIS under a 5.2% increase to levy revenue with the rates produced using updated financial data.

Table 12: Comparison of levy rates produced in Interim CRIS with rates produced with updated financial data

	Levy rates proposed in Interim CRIS (5.2% revenue increase)	Levy rates with updated forecasts (2.2% revenue increase)
Motor vehicle	$40.12 per vehicle	$39.00 per vehicle
Residential/Personal[32]	9.57 cents per $100 sum-insured	10.04 cents per $100 sum-insured
Non-residential	11.51 cents per $100 sum-insured	11.88 cents per $100 sum-insured*

*This figure does not incorporate the shift from indemnity calculation to sum-insured calculation.

73. Fire and Emergency has indicated that this set of rates produced still represents a 2.2% increase in levy revenue. Fire and Emergency has noted that along with the increase in estimated net costs, a correction to the calculation method has contributed to higher rates.

74. Previously, there was an error in the calculation method, which meant that the sum of levy revenue attributed to each of the policyholder groups was less than the total levy revenue that it was intended to collect. An increase in rates has been required after correcting this issue (rates have been increased to collect an additional $21.45 million over the levy period).

Fire and Emergency's cost allocation model

Three policyholder groups derived from the Act

75. To produce levy rates for public consultation, Fire and Emergency developed a model for allocating costs between different policyholder groups. This model was outlined in the interim CRIS. The purpose of the model is to provide a basis for estimating levy rates for different insurance policyholders based on the amount of resources Fire and Emergency dedicates to incidents affecting that group. The allocation model is intended to align levy rates as much as possible with the equity principle in the FENZ Act.

[32] Assuming a $100,000 cap for the levy on residential property and a $20,000 cap for the levy on personal property.

76. The model identifies three broad policyholder groups, then outlines a method for allocating costs to those groups. The groups are based on the types of property identified specifically in the FENZ Act. These are:

- Motor vehicle policyholders;
- Residential and personal (home contents) policyholders; and
- Non-residential policyholders.

77. The model is designed to allocate both direct and indirect costs to policyholder groups. Direct costs are those that relate to a particular incident response type or activity that Fire and Emergency carries out as part of its mandated functions. Indirect costs relate to costs incurred for ensuring the organisation has the expertise and capacity to respond when an incident does occur. This includes training, corporate costs and other overheads.

The cost allocation process includes 4 steps

Step 1: Categorising Costs

78. The model divides costs on Fire and Emergency's general ledger to one of three groups. These are:

- Direct costs (costs that can be directly attributed to one of Fire and Emergency's key activity groups, see **Appendix E** for this list);
- Response/Readiness (response and readiness costs that cannot be attributed directly to one activity group); and
- Corporate overheads.

Step 2: Estimating the readiness/response cost of different activities

79. Incident response data from the Station Management System (SMS) is used to allocate readiness/response costs to different activity groups. The SMS data records the time spent responding to an incident type multiplied by an average hourly cost of response, which is based on Minimum Shift Staffing. Once calculated, these response costs are removed from the response/readiness pool and allocated to specific activity groups. What remains of the response/readiness pool becomes the readiness overhead.

Step 3: Allocating corporate and readiness overheads

80. Corporate and Readiness Overheads are then allocated between the activity groups based on the proportion of response costs allocated to each activity group at steps 1 and 2.

Step 4: Allocating costs to Policyholder Groups

81. Once all of Fire and Emergency's costs have been allocated among its different activity groups, these costs are divided between the different policyholder groups identified above. There are several ways this is done:

81.1 Non-incident driven activities (e.g. education, advice on building design) are allocated by pre-determined percentages based on historical trends;

81.2 Incident driven costs are allocated by the total time of response spent on incidents mapped to each policyholder group. Incident response data records the property type where an incident occurred, and these are mapped to the appropriate policyholder group (for example, an incident at a residential property is mapped to the residential policyholder group);

81.3 Where a response cannot be directly aligned with a policyholder group, costs are allocated proportionally based on the costs already allocated to each group; and

81.4 The model also allocates some response types to public good, where a particular beneficiary for the response cannot be identified. The cost of public good incident responses is allocated proportionally to the three policyholder groups. Urban search and rescue and medical response are two response types registered as 'public good'.

Outcome of the cost allocation exercise

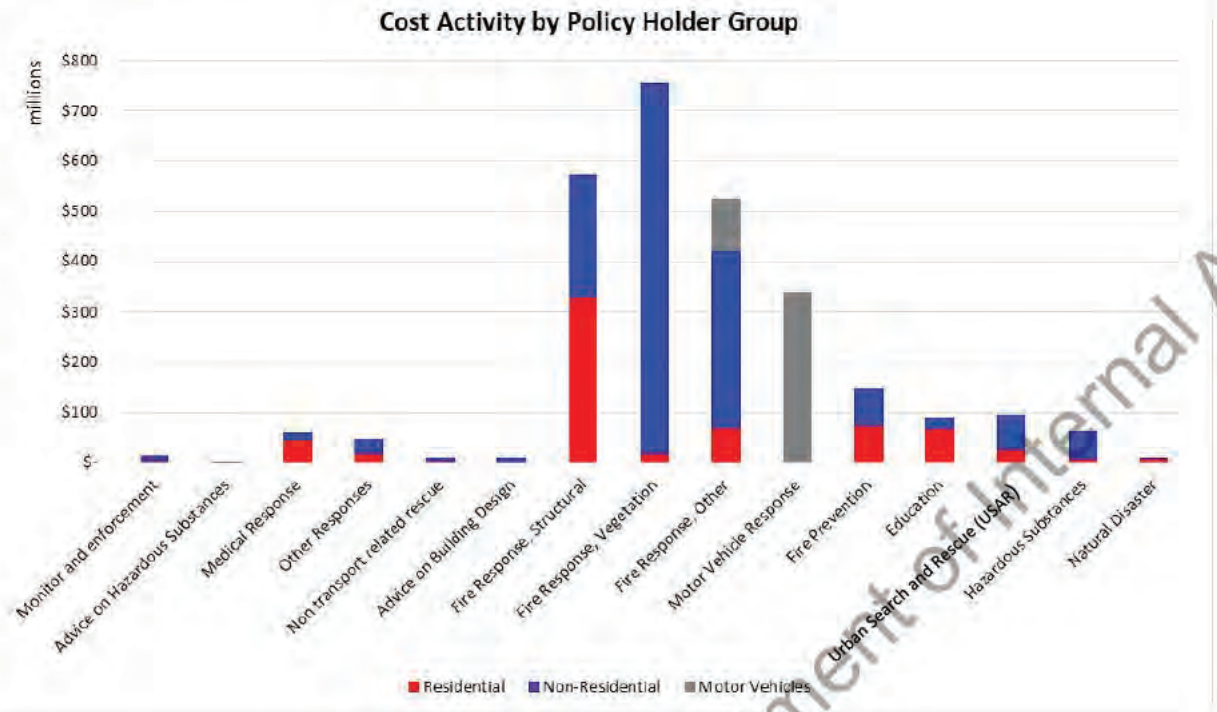
82. Following its cost allocation exercise, the total revenue that Fire and Emergency proposes is required from each policyholder group over the three-year levy period is:

- Motor vehicles: $446.61 million (16.3%)
- Residential and personal property: $665.29 million (24.2%)
- Non-residential: $1,634.85 million (59.5%)

83. The biggest shift in the allocation of costs, from what is currently in place under the transitional levy, is a much greater allocation to motor vehicles (increasing from 7.3% to 16%). This allocation reflects a better estimate of the value that motor vehicle owners receive from Fire and Emergency, but it also contributes to the proposal to increase in the levy amount paid by motor vehicle owners discussed further below.

84. **Appendix E** provides more detail on the cost allocation model and provides three tables outlining the projected allocation of costs to Activity Groups and then the Activity Group costs into policyholder groups. This is represented in **Figure 1** below.

Figure 1: Distribution of Activity Costs by Policyholder Groups



Determining levy rates

85. To determine the specific levy rate or levy amount for an individual policyholder, Fire and Emergency projected the size of the base of insured property of each policyholder group over the levy period. Estimating the size of a policyholder group and then determining a levy rate or levy amount is a technically complex exercise and is different for each of the policyholder groups. Fire and Emergency has advised us that whether the number of policies, or the overall value of sums insured is more important, depends on the way levy is applied to a given policyholder group.

86. To determine the motor vehicle levy amount, the number of policies is needed. For non-residential property, the overall value of sum-insured is more important. For residential and personal property, both the number of policies and the distribution of sums insured across those policies is needed to work out the corresponding levy rate if a cap is applied. **Table 13** outlines the size of the policyholder groups (with an estimate on the leviable insurance value of residential and personal property being based on our recommended cap levels of $100,000 and $20,000 respectively).

Table 13: Projected size of policyholder groups for the levy period (average per year)

Category	Size of levy base
Residential and personal property	1,884,180 – estimated average number of home insurance policies over the levy period. 1,857,203 - estimated average number of contents (personal property) policies over the levy period $224.5 billion – Estimated average leviable insurance value of residential and personal property
Motor Vehicles	3,837,397 – estimated average number of vehicles over the three-year levy period
Non-residential	$754.8 billion - estimated average insured value of non-residential property

Part 4: Levy rate proposals

Motor Vehicles

Treatment of motor vehicles under the levy framework

87. Section 141 of the FENZ Act requires that regulations prescribe an annual levy amount for each motor vehicle. Charging an annual rate of levy for each vehicle is consistent with the current levy. There are two key changes to how the new levy framework will treat motor vehicles:

    87.1 Levy will be charged on both comprehensive and third-party insurance cover, meaning third-party fire and theft policy holders will be brought into the levy for the first time.

    87.2 The FENZ Act does not distinguish between different vehicle sizes. The transitional levy applies the motor vehicle levy amount only to vehicles below 3.5 tonnes. Larger vehicles are treated as non-residential property and have an uncapped levy rate applied.

Scope of options considered

88. The regulation making powers in section 141 of the FENZ Act limit the scope of the options available when setting a motor vehicle levy amount. The Act requires a uniform levy amount for all vehicles and does not allow any distinction between different vehicle types. This limits the extent to which any difference in the benefit motor vehicle owners receive from Fire and Emergency can influence what they pay.

Consultation

89. Fire and Emergency consulted publicly on a proposed motor vehicle levy amount of $40.12 (compared with the amount under the transitional levy of $9.53).

90. Submissions from the insurance sector consistently expressed concern that a four-fold increase to the motor vehicle levy (compared to transitional amounts) would impact insurance uptake for motor vehicle holders. Insurers suggested that a smaller increase to motor vehicle levy would reduce the risk of underinsurance, particularly for low value vehicles.

91. The most common feedback from individual submitters was the suggestion that levy is paid on vehicle registration, to ensure insured drivers are not subsidising those that are uninsured. However, this is beyond the scope of options available. Support for proposed increase to the levy amount was mixed, and many said it was too expensive and would mean they would be less likely to insure. In response, we considered a reduced motor vehicle levy amount, as discussed below.

A. Motor vehicle levy proposals

We considered two options for the motor vehicle levy amount

92. **Option A.1 (preferred)** sets the motor vehicle levy at a flat rate of $39 for each vehicle insured, collecting the full amount allocated via the cost allocation model described above.[33] This means the rate would be proportionate to Fire and Emergency's response to vehicle incidents.

93. **Option A.2** proposes a reduced motor vehicle levy set at a flat rate of $25 (lower than the estimated cost for responding to vehicle incidents). Option A.2 presents a middle ground between the transitional levy amount and Option A.1.

94. Both options mean that smaller vehicles will pay a larger proportion of the motor vehicle contribution than under current levy settings. **Table 14** compares the motor vehicle levy options against levy payable under the transitional levy. Both options will see significant increases for motor vehicles less than 3.5 tonnes. For larger vehicles, changes in levy paid will depend on sums insured.

Table 14: Two alternative motor vehicle levy amounts, compared to transitional levy amount (payments per annum)

	Transitional levy amount 2024-2026	Option A.1 – Cost allocation (preferred)	Option A.2 – reduced for affordability
Light vehicles (less than 3.5 tonnes) with comprehensive cover	$9.53 (flat amount)	$39 (flat amount)	$25 (flat amount)
Light vehicles (less than 3.5 tonnes) with third party cover	$0 (not levied)	$39 (flat amount)	$25 (flat amount)
Heavy vehicles (more than 3.5 tonnes)	Dependent on sum-insured (no cap)	$39 (flat amount)	$25 (flat amount)

Option A.1 supports equity, is simple to administer, but a significantly increases cost impacting affordability

95. This option will support levy equity by ensuring other levy payer groups are not required to cover the cost for Fire and Emergency responses. Fire and Emergency has not examined in detail the relative benefit for different groups of motor vehicle owners but notes that its response when called to a motor vehicle incident is usually the same.

[33] This figure reflects the same cost allocation method used to calculate the $40.12 levy amount proposed in Fire and Emergency's consultation. We understand this downward shift to $39 largely reflects a higher estimate of the number of motor vehicles during the levy period.

96. However, this option would mean a significant increase for most motor vehicle policyholders and may make insurance unaffordable for those least able to pay it. For those with comprehensive cover, the levy amount would change from $9.53 to $39 from 2026. Third-party insurance policyholders will see a steeper increase (from $0 to $39 from 2026) as this will be the first time that third-party fire and theft policyholders will be brought into the levy regime. A typical comprehensive insurance premium of $800 per annum will see an almost 5% increase to insurance costs because of this proposal, but a third-party premium of $200 will increase by almost 20%. However, third-party policyholders make up a small proportion of motor vehicle policyholders (5.6%).[34]

97. The FENZ Act does not allow a distinction between different insurance covers or vehicle types. Regardless of the option chosen, some policyholders will be impacted more than others. No information is available about the extent to which insurance price changes (due to the levy) are likely to influence uptake.[35] However, feedback from the insurance sector raised concerns that vehicles with third-party cover and farm vehicles are most likely to reduce insurance cover as the levy will be a larger proportion of their overall insurance costs.

Option A.2 eases the impact on affordability, but is less equitable

98. Option A.2 would lessen the levy increase for motor vehicle policyholders. Fire and Emergency did not consult on this option. Option A.2 was developed post-consultation to consider the views of submitters who disagreed with the proposed levy amount increase. Their arguments included that cars are essential and high levy amounts would risk people underinsuring, and the increase would disadvantage those with more than one car. This option could reduce free riding (where people receive the benefit of Fire and Emergency's services without paying levy) among motor vehicle owners. However, we do not know how much this option would better support insurance uptake.

99. Option A.2 requires other policyholder groups to make up the shortfall in revenue. In effect, this would mean a less equitable levy distribution, but a lesser impact on the cost of insuring motor vehicles.

100. Under option A.2, Fire and Emergency would reallocate the additional levy not paid by motor vehicle policyholders to the other policyholder groups proportionately, based on the size of those groups. The motor vehicle policyholder group is the smallest of the three policyholder groups, accounting for 16.3% of Fire and Emergency's response costs. The reallocation required under Option A.2 would have a proportionately small impact on the residential and non-residential levy payer groups, as shown in **Table 15**.

[34] 5.6% is the estimated percentage of vehicles with third-party insurance based on information provided by insurers to Fire and Emergency.

[35] In the consultation for these proposals and in the previous consultation to increase to the transitional levy insurers have not provided information evidencing the potential impacts of proposals on demand for insurance.

Table 15: Share of levy costs for each policyholder group under two alternative motor vehicle levy amounts, compared to transitional levy

	Allocation under transitional levy 2024-2026	Allocation under Option A.1	Allocation under Option A.2
Motor vehicles	7.7%	16.3%	10.5%
Residential/personal	35.5%	24.2%	25.5%
Non-residential	56.8%	59.5%	64%

101. **Appendix F** shows a range of levy rate scenarios and includes how these different allocations would affect levy payments for households.

On balance, we prefer option A.1

102. **Table 16** below summarises how the options for levying motor vehicles compare on the principles set out for this CRIS.

Table 16: Analysis of options against cost recovery criteria

	Option A.1 – Align Motor vehicle amount with cost allocation methodology (preferred)	Option A.2 – Discounted Motor vehicle levy of $25
Universality	All motor vehicle policyholder will pay levy. ✓	All motor vehicle policyholder will pay levy. ✓
Equity	This option will align the amount paid by motor vehicle policyholders with Fire and Emergency's cost allocation model, increasing the equity of the levy. ✓	Non-motor vehicle policyholders will be required cover approximately one third of the cost of responding to motor vehicle incidents. ×
Simplicity	No difference in the implementation of the levy under this option. ✓	No difference in the implementation of the levy under this option. ✓
Insurance affordability	A higher motor vehicle levy may result in greater underinsurance in the market. Impacts to the price of third-party insurance in particular will be significant, but there is uncertainty over the extent to which this will impact insurance uptake. x	Reducing the impact on the price of insuring motor vehicles may encourage insurance uptake. This option requires increases to residential and non-residential property rates, but households are likely to pay less overall. ✓

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion

103. Recommending an option requires weighing up the equity advantages of Option A.1 against the insurance affordability advantages of Option A.2. There are some limitations on the benefits of discounting the motor vehicle levy amount. This includes that:

103.1 those who would likely benefit the most from Option A.2 – policyholders with third-party cover (who are not charged a levy under the transitional settings) – make up only 5.8% of all motor vehicle policyholders; and

103.2 uncertainty over the extent to which this option would improve insurance uptake compared with applying Option A.1; and

103.3 The savings from a lower motor vehicle rate may be offset by higher rates for residential/personal (and non-residential) property for those who hold several insurance policies (e.g. vehicle and home/contents insurance or vehicles and commercial property) – although, the scenarios in **Appendix F** show that subsidisation from Option A.2 due to reallocating the additional levy not paid by motor vehicle policyholders would likely be minimal.

104. We consider equity benefits of Option A.1 are clearer, as incident reporting data provides a clear basis for allocating cost to motor vehicles. On balance, we prefer prioritising the equity advantages of Option A.1.

Residential and personal property

Treatment of residential and personal property under the levy framework

105. Section 141 allows for regulations that set an annual rate of levy as a proportion of the sum-insured, and maximum amounts of levy payable on residential and personal property. Residential property is defined as a single household unit (and associated land/property), and personal property the items usually stored on that residential property (even if they are moved elsewhere).

Scope of options considered

106. The FENZ Act allows separate levy rates to be set for residential and personal property, but this option has not been considered as part of this analysis. This is because the benefit of a response to an incident involving residential property cannot be distinguished from personal property using Fire and Emergency's incident response data. In most cases, a response to an incident on residential property will benefit both personal and residential policyholders. Setting a lower cap on personal property will reflect the lower value compared to a residential dwelling.

107. The rates considered here assume that motor vehicle policyholders will pay the amount under Option A.1. We also did not consider reallocating costs to other policyholder groups to reduce levy costs for residential and personal policyholders. Applying the cost allocation model has meant that residential and personal policyholders will cover a smaller proportion of Fire and Emergency's costs than they currently do. The reallocation of costs to other policyholder groups is therefore not necessary to address issues of insurance affordability.

108. This analysis does not consider different rates for different categories of residential property (e.g. by rural/urban or by stand-alone/apartment). Fire and Emergency notes that its response to a residential incident is usually the same, suggesting that all incidents at residential property draw on a similar amount of resource from Fire and Emergency. Fire and Emergency collects information on property risks to help with fire risk reduction activities but this is not designed for making levy-related decisions. Fire and Emergency advise that if there was a shift to using risk-based assessments for levies, data would need to come from a wide range of sources and would likely take years to develop accurate information. Fire and Emergency further note that data collection would be subjective or require manual input from firefighters (some of whom are volunteers), increasing cost, complexity and potentially inconsistency.

109. Different rates for different risk categories of property would increase the equity of the levy but would also increase its administrative complexity. Insurance sector stakeholders emphasise the need to retain simplicity to support administration of the levy.

110. The FENZ Act does not allow for setting a flat levy amount for residential or personal property as it does for motor vehicles. A rate per sum-insured must be set.

Consultation

111. In consultation, Fire and Emergency proposed a levy rate of 1.85 cents per $100 sum-insured, with a maximum amount of levy payable at a sum-insured of $625,000 per residence, and $75,000 per contents insurance policy. The most common theme of feedback from individual submitters was to support a levy on property rates instead of insurance contracts, which is outside the scope of regulations.

112. Feedback was mixed about whether the residential levy should be capped, and at what level. There was some support for the idea that people who could afford it should contribute more, while applying levy discounts for those on lower or fixed incomes.

113. Feedback from the insurance sector was strongly in favour of retaining a low cap on residential property. Changing the cap would add to administration costs for insurers as it would mean levy payments on residential properties become variable, depending on their sum-insured value. Insurers would need to calculate an individual sum-insured for each residential unit in a multi-unit building to work out how much levy is owed, and whether the cap should apply. According to feedback from insurers and brokers, unit owners would need to regularly obtain a valuation of their unit to accurately calculate their levy payments. The cost of a valuation is likely more than the amount of levy collected, placing a disproportionate burden on unit owners.

B. Proposals for residential and personal property

The proposals for residential/personal property balance simplicity in addition to equity and affordability

114. We have developed three proposals for the residential and personal levy rates and caps to apply for 2026-2029:

114.1 Option B.1 (existing cap) – a rate of 10.04 cents per $100 insured with a cap of $100,000 for residential property and a cap of $20,000 for personal property (the caps are the same as those that apply under the transitional levy);

114.2 Option B.2 (increased cap) – a rate of 1.98 cents per $100 insured with a cap of $625,000 for residential property and a cap of $75,000 for personal property (the caps are the same as what Fire and Emergency public consulted on and approximated the median level of sum-insured value of these property types); and

114.3 Option B.3 (uncapped) – a rate of 1.47 cents per $100 insured without a cap.

115. Each of these options for rates and caps are designed to collect the same overall amount of revenue.[36] **Tables 17 and 18** compares different rates aligned with different maximum amounts for residential and personal property. **Appendix F** also outlines how these options for caps would affect levy payments for different households.

Table 17: Proposed residential property levy rates and maximum levy payable compared to transitional levy

	Transitional levy (cap of $100,000)	Option B.1 – existing cap of $100,000	Option B.2 – increased cap of $625,000	Option B.3 – uncapped
Rate (cents per $100 insured)	11.95	10.04	1.98	1.47
Maximum levy payable, based on rate and cap (per annum)	$119.5	$100.4	$123.75	No maximum amount

Table 18: Proposed personal property levy rates and maximum levy payable, compared to transitional levy

	Transitional levy (cap of $20,000)	Option B.1 – existing cap of $20,000	Option B.2 – increased cap of $75,000	Option B.3 – uncapped
Rate (cents per $100 insured)	11.95	10.04	1.98	1.47
Maximum levy payable, based on rate and cap (per annum)	$23.90	$20.08	$14.85	No maximum amount

[36] Higher levy rates are needed when applying lower caps because the levy is being applied to a smaller insurance value. As a simplified example, we can compare the effect of having no maximum cap and a cap of $100,000 on a property that's worth $500,000:

- No maximum cap and a levy rate of $1 for every $100,000 of insurance value = $5 total levy payment.
- Cap of $100,000 and a levy rate of $5 per $100,000 of insurance value = $5 total levy payment.

Option B.1 supports equity, is simple to administer, but does not consider affordability as the other options do

116. Option B.1 (preferred) would retain the current caps of $100,000 for residential property and $20,000 for personal property. This means that almost all residential properties (99%) and approximately 91% of personal policies would have the maximum levy rate applied creating, in effect, flat levy amounts for this policyholder group. A single flat amount for most residential and personal property policyholders is equitable, as Fire and Emergency's response to residential incidents is usually the same. As noted above, introducing variability in the amount each residential unit would pay creates complexity in calculating levy on multi-unit buildings. This option avoids that complexity.

Option B.2 is less equitable, more complex to administer, but may support affordability for some

117. Option B.2 would increase the sums insured, at which a maximum amount of payable levy would apply for both residential and personal property, to $625,000 and $75,000 respectively. These caps broadly align with the median sum-insured for residential and personal property.

118. This option is less equitable, assuming Fire and Emergency responds the same way to residential property callouts. It requires higher-value property owners to pay more for what Fire and Emergency considers to be the same benefit. A few submitters also pointed out that even if Fire and Emergency's response differs for larger (and therefore more high value) properties, a cap of $625,000 was arbitrary and not having a cap (presented as Option B.3) would be more equitable than Option B.2.

119. As noted above, changing the cap would add to administration costs for insurers as it would mean levy payments on residential properties become variable. Raising the cap would mean lower value properties have less levy applied, potentially helping insurance affordability for those with lower sums insured. Some submitters noted that income levels and property values are not necessarily well-aligned, meaning that those with lower sums insured are not necessarily the people least able to afford insurance.

Option B.3 is less equitable, but simpler to administer and may support affordability for some

120. Uncapped levy rates are less equitable, as Fire and Emergency has advised that responses to higher and lower value properties are similar. This option requires higher value residential and personal policyholders to pay significantly higher levy amounts, despite not receiving a different service from Fire and Emergency in the case of an incident involving their property.

121. This option would avoid the complexity issues raised by a higher cap on residential property. If no cap is applied, there is no need for insurers to work out the individual value of dwellings in a multi-unit building. However, some insurers noted that an uncapped rate would still increase their administrative burden. They did not specify why, but it may be due to requiring a change to the current approach.

122. Similar to Option B.2, lower value properties have less levy applied, helping insurance affordability for those with lower sums insured. However, policyholders with lower sums insured would have more savings under Option B.3 than under Option B.2. Conversely, those with higher sums insured would have more costs than under Option B.2. As noted above, some submitters suggested income levels and property values are not necessarily well-aligned, meaning that the people with lower sums insured are not necessarily the people who are least able to afford insurance.

Table 19: Analysis of options against cost recovery criteria

	Option B.1 – caps at current levels (preferred)	Option B.2 – increased caps	Option B.3 – uncapped rate
Universality	All residential and personal policyholders will pay levy. ✓	All residential and personal policyholders will pay levy. ✓	All residential and personal policyholders will pay levy. ✓
Equity	Reflects uniform response to residential incidents. ✓	Some policyholders pay more for the same response x	Some policyholders pay more for the same response. x
Administrative simplicity	Flat rate applied to most policies. ✓	Required information about property valuation in multi -unit property. x	Insurers will not need to determine the value of each dwelling in a multi-unit building. ✓
Insurance affordability	All policyholders pay the same levy, regardless of property value. x	Less levy payable on small sums insured, but little evidence it will impact those least able to afford insurance. (✓)	Less levy payable on small sums insured, but savings will not necessarily reach those least able to afford insurance. High value property will have significant rises in levy. (✓)

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion

Non-residential property

Treatment of non-residential property under the levy framework

123. The levy framework allows for specific levy rates and maximum amounts to be applied for any other property in addition to motor vehicles, personal, and residential property. As has been discussed above, individual properties within the non-residential property category can vary significantly in terms of how Fire and Emergency might respond to an incident.

124. A key change introduced by the FENZ Act is removing to ability to calculate levy on the indemnity value of a property, instead requiring it to be calculated on its sum-insured value. Since public consultation was held, Fire and Emergency has undertaken further work with insurance sector stakeholders to estimate the impact of the change from indemnity to sum-insured and incorporated this into the calculation of the levy rate for non-residential property.

Scope of options considered

125. We ruled out an option that would see a maximum levy amount apply to the entire non-residential policyholder group. Applying a cap would require identifying a unit of property to which that cap would apply. This is not possible within this broad category of property types.

126. Breaking up the non-residential category into smaller categories could potentially increase the equity of the levy. However, Fire and Emergency concluded that it did not have enough information to provide for differentiated levy rates or caps for this group. As noted in the discussion on residential and personal property, Fire and Emergency has advised developing accurate data would take years, would add costs, and may create issues with consistency.

Consultation feedback on the non-residential property rate

127. Fire and Emergency consulted on a levy rate of 11.51 cents per $100 sum-insured for non-residential property. Stakeholders' views on the non-residential levy rate generally depended on the perspective of a submitter. Residential levy payers often submitted that the commercial sector should pay for a larger proportion of overall revenue. Submissions from business often questioned why non-residential levy was not capped, like residential and personal. This came from a misconception that an uncapped residential rate would collect more levy overall and remove some of the burden from the non-residential group.

128. Insurance sector feedback focused on the risk of overcollection from non-residential levy payers due to removing the ability to calculate levy on indemnity value. Submissions consistently estimated a 40-50% reduction in the levy rate would be necessary to avoid overcollection.

129. Feedback on the non-residential levy rate also focused on types of property that will no longer be exempt when the new levy commences. Given a lack of information about the risk profiles of different commercial sectors, our analysis of options has focused on property types that lost exemptions from the levy, where stakeholders expressed concerns about the equity and affordability of the changes. In the following section we have compared options for treatment of specific property types against application of the standard non-residential rate.

Determining the general non-residential levy rate

130. We propose setting a levy rate of 7.26 cents per $100 sum-insured for non-residential property. This is an almost 40% reduction from the rate proposed by Fire and Emergency in consultation. This reduction is intended to offset increased costs due to requiring levy payment to be calculated on the sum-insured value of a property (removing the ability to calculate on the indemnity value).

131. This rate is still intended to achieve the same level of revenue from the non-residential policyholder group, aligning with the cost allocation methodology set out above and maintaining the equity of levy system.

132. We have adjusted stakeholder feedback about the cost impacts of the levy in the following sections to reflect the updated rate.

133. The following sections discuss options to discount levy costs for certain property types within the non-residential policyholder group. If we considered that these changes would have a significant effect on levy revenue, then lost revenue would be recovered by other insured property within the non-residential policyholder group (and not other policyholder groups). This would be consistent with the cost allocation model and maintain equity of the levy system.

134. However, these proposals cover property types that have been exempt from the transitional levy. As noted in the agency disclosure statement, changes to exemptions have not been incorporated into modelling the levy as they are presumed to sit within the margin of error. This means decisions to discount or reintroduce exemptions for these specific property types are assumed to not affect levy revenue drawn from non-residential property and will not affect the non-residential levy rate.

C. Treatment of Domestic Aircraft

Aircraft receive some benefit from Fire and Emergency, but it is limited due to independent airport fire crews often leading responses

135. Independent fire brigades operate at 22 New Zealand airports. Fire and Emergency often plays a support role attending incidents involving aircraft at these airports. Overall, Fire and Emergency notes that 10% of airport incidents were attended by airport based fire crews only. Thirty percent of incidents had Fire and Emergency and airport resources, while 60% were attended by Fire and Emergency only.

136. Drawing on Fire and Emergency incident response data, we estimate that it attends an average of 50-60 incidents involving aircraft per year. This includes standby calls, where the airport-based fire crews lead the response. Although this represents a small total number of incidents, the rate of aircraft incidents is high in relation to the number of aircraft in New Zealand. Industry estimates have the total number of aircraft in New Zealand at approximately 5,500.

Applying the full non-residential rate without a cap would significantly impact insurance costs, particularly for large aircraft

137. Stakeholder feedback indicated that an uncapped levy would have a significant impact on the costs of aircraft insurance and may impact their insurance decisions. 9(2)(b)(ii) [redacted]

138. Owners of small aircraft advised there would be a smaller impact on their insurance costs compared with owners of large aircraft. This reflects the variation in risk profiles for different aircraft types. However, they indicated that applying the levy at the proposed rate would threaten the profitability of small aviation businesses, as well as pilot training operations. Increases to insurance costs would be substantial with the levy adding up to 20% on to insurance costs.

We have considered a low cap option instead of a reduced rate option

139. A cap would better manage levy costs for larger passenger jets than a lower rate, which we consider is the right approach. It would better reflect that larger aircraft are required to land at airports that operate an onsite emergency response team and rely less on responses from Fire and Emergency.

140. There is a limited basis for determining what level the cap should be set at as the data does not support a robust estimate of the benefit that aircraft receive from Fire and Emergency's services. We determined that setting the cap at a relatively low level, of $100,000, was reasonable due to the lack of evidence to support a higher level of contribution. A lower cap may mean the administrative burden of levying aircraft outweighs the benefit of the contribution to the levy.

Options considered for the treatment of domestic aircraft

141. **Option C.1 – full non-residential rate.** We do not consider that treating aircraft the same as other non-residential property would be justified. It would be inequitable, as major airports operate onsite fire brigades, and Fire and Emergency attends many incidents only in a stand-by capacity. It would also be highly impactful on insurance affordability, particularly for larger aircraft such as passenger jets which pay a low insurance premium relative to the sum-insured value.

142. **Option C.2 – full rate capped at $100,000 sum-insured, <u>preferred</u>**. Aircraft do receive some benefit from Fire and Emergency services, so should be included in the levy according to the universality principle. This option appropriately addresses the more limited benefits received by Fire and Emergency's services and the potentially high impact on insurance affordability if no cap was applied. The one disadvantage with this approach is the administrative cost required to collect this levy may be out of balance with the relatively low level of revenue collected. However, we have not received evidence that administrative costs would be significant.

143. **Option C.3 – exempt all aircraft.** This option avoids the significant impacts on aviation insurance that applying no cap would lead to. However, aircraft do benefit from Fire and Emergency's services, and we consider they should be included in the levy based on the universality and equity criteria.

144. A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

D. Scope of the exemption for aircraft that fly internationally

The current scope of the exemption for international aircraft could add complexity

145. The current definition of the exemption for aircraft making regular international flight requires additional clarification about what classifies as regular flight. Large airlines such as Air New Zealand and Jetstar insure their entire fleets for worldwide travel even when they are assigned to domestic routes, which means current insurance information cannot be used to derive which aircraft fly overseas regularly.

146. Redefining the exemption for international aircraft will avoid additional administrative work of calculating whether an aircraft flies internationally enough to count as regular. A small number of aircraft that fly occasional international routes will no longer be subject to the levy, but the vast majority of aircraft will not be affected.

Options considered for the scope of the exemption covering international aircraft

147. **Option D.1 – exempt aircraft that fly regular international routes.** This option will maintain the exemption agreed by Cabinet in April 2024. It would require development of criteria for what constitutes 'regular' international routes.

148. **Option D.2 – exempt all aircraft that fly internationally, preferred.** Redefining the exemption for international aircraft will reduce the administrative burden on insurers and Fire and Emergency. A small number of aircraft that fly occasional international routes, and in-principle should pay levy, would be exempt.

E. Treatment of marine vessels

The levy framework distinguishes between recreational boats insured as personal property, and those covered under marine-specific insurance policies

149. Options considered here concern vessels insured under marine hull, or other marine-specific, insurance policies which cover commercial and recreational boats. This does not include smaller craft such as kayaks or stand-up paddle boards, which are generally covered under contents insurance policies. The latter group will pay levy at the personal property rate and will not be impacted by the options considered in this section.

Indicative data suggest Fire and Emergency's services provides little benefit to boat owners, particularly owners of large ships

150. Fire and Emergency response data indicated that it has responded to approximately 160 incidents on average per year since its formation in 2017. These response numbers are very low compared to estimates about the number of boats in New Zealand, which suggest individual boat owners receive very limited benefit from Fire and Emergency.[37]

151. Shipping sector feedback highlights the limited benefit from Fire and Emergency when at sea. Commercial ships are required to operate fire response capacity. Fire and Emergency's ability to respond is largely restricted to when ships are docked. When large ships are docked, Fire and Emergency can support a response, but the ship's crew would still lead the response.

152. Some stakeholders have suggested that marine vessels could be charged levy at a similar rate to motor vehicles. The cap options we have developed reflect this feedback.

Some vessels already pay levy, while some could face significant impacts when the new levy commences

153. Boats stored on land currently pay an uncapped levy, while those stored on the water do not. This is because the current levy regulations include an exemption for vessels that are not taken out of the water. In addition to the levy on trailered vessels, boat owners must pay motor vehicle levy on the trailer itself.

154. Charging an uncapped non-residential levy rate on all marine vessels means that higher value vessels will pay significant levy amounts relative to insurance premiums.

9(2)(b)(ii)

[redacted]

We have considered lower cap options instead of discounted rates

155. Caps would better manage levy costs for larger ships than a lower rate. Similar to our analysis on aircraft, we consider a cap is the right approach. It would better reflect that large ships, despite having higher sums insured, receive less value from Fire and Emergency's services.

[37] Maritime New Zealand surveys of recreational boat users indicate that the number of recreational boats may be well over a million, although the majority of these boats are small craft unlikely to be covered under marine insurance policies (such as kayaks).

[38] This was based on the rate consulted on by Fire and Emergency of 11.51 cents per $100 sum-insured.

Options considered for treatment of ships

156. **Option E.1 – full non-residential rate.** We do not think this option would be justified, particularly for large ships. This would significantly increase insurance costs for large ships, which receive little to no benefit from Fire and Emergency services. We consider this option is also inequitable for smaller boat owners, who also receive limited benefit and many of whom will pay levy on their boat trailers.

157. **Option E.2 – full rate capped at sum-insured of S50,000.** This option would significantly mitigate the impact of the levy, particularly for larger ships. Given the small number of incidents involving boats, this option may still be inequitable for lower value marine vessels, particularly because many already pay levy on boat trailers. Informal feedback from the Insurance Council of New Zealand (ICNZ) suggests a cap would create an administrative burden, but we do not have evidence of how significant this would be.

158. **Option E.3 – full rate capped at sum-insured of S25,000.** This option would mean boat owners pay almost 50% of the motor vehicle rate, to reflect time spent out of reach from a Fire and Emergency response. It is unclear whether this option is more, or less, equitable than option E.4. Boat owners do receive a small amount of benefit from Fire and Emergency services, but many small boat owners already pay levy on boat trailers. ICNZ's feedback on the administrative burden of a cap also applies to this option.

159. **Option E.4 – exempt marine vessels, <u>preferred</u>.** Fire and Emergency responds to incidents involving marine vessels but the number of responses is very small compared to the number of vessels in New Zealand. This option does not compare well on the universality principle, as boat owners receive some benefit and, in-principle, should make some contribution to the levy. However, this approach may be more equitable than a low cap option as Fire and Emergency also collects motor vehicle levy on boat trailers insured under contracts of marine insurance.[39]

160. A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

F. Treatment of Forests

Forests are a significant fire hazard, but there is limited information to support an estimate of costs in servicing forests

161. Fire and Emergency estimates that 'vegetation' fires will cost approximately $250 million per annum during the levy period, which is a sizeable portion of its total costs.[40] This broad category includes forests, but also other types of fires and Fire and Emergency does not know the costs of servicing forests specifically. It is therefore difficult to judge the equity of applying the levy to insured forests.

[39] Owners of small boats stored on the water (e.g. sail ships) might not require a boat trailer and would therefore not be paying levy.

[40] Consultation feedback challenged this estimate. Stakeholders referred to a Martin Jenkins report commissioned in 2016 that identified a $35 million annual cost of rural fire response/management.

162. Fire and Emergency does measure how much forest is burnt as a proportion of all land burnt by wildfires. Data from Fire and Emergency indicates that:

    162.1 forestry land as a proportion of all land burnt by wildfires was 53% in 2018/19, 7% in 2019/2020 and 12% in 2020/21.[41]

163. This data provides some evidence that forests receive benefit from Fire and Emergency's services. However, we do not consider that 'area burnt' is a robust basis for estimating the value received from Fire and Emergency's services.

164. During consultation, forest sector stakeholders commented on the discrepancy between the MartinJenkins report from 2016 (commissioned by the NZ Fire Commission) that identified a $35 million cost of rural fire response/management (about a third of this was forestry costs), and the $250 million of annual costs for responding to vegetation fires identified in the consultation document. Some stakeholders challenged Fire and Emergency's estimate of cost allocated to vegetation fire.

165. In addition, forestry sector submitters during public consultation felt that Fire and Emergency had not taken into account the fire control measures taken by the sector when determining levy rates. A sector wide survey by New Zealand Forest Owners Association (NZFOA) estimated it spends about $11 million a year on fire control, while forestry companies operate their own fire brigades (often trained by Fire and Emergency).

A full non-residential levy rate would have a disproportionate impact on insurance costs for forests, although insurance uptake is already low

166. Insurance premiums for forests are low compared with their sum-insured value. This means that applying the full levy would have a relatively high impact on insurance costs for the forest owners that do insure. 9(2)(b)(ii) [redacted]

167. Only about a third of commercial forest in New Zealand are insured. Submissions from the NZFOA and New Zealand Farm Forestry Association (NZFFA) indicated this figure was about 35% for small forest blocks and 38.5% for medium to large blocks. Large international forestry operators rarely insure at all, as they are big enough to absorb the risk of fire on their balance sheets. 9(2)(b)(ii) [redacted] estimates that insurance uptake is at about 30% of the national forestry stock.

[41] This fluctuation suggest that proportions can be influenced by where large wildfire events take place. Submissions from the forestry sector note that commercial forest losses from 2016-2021 were almost double those from 2009-2015.

[42] This estimate was based on the non-residential levy rate proposed by Fire and Emergency of 11.51 cents $100 sum-insured.

168. Estimates of the average value of forest crops per hectare range from approximately $14,000 over the life cycle of the trees.[43] Other estimates based on smaller samples place it closer to $10,000.[44]

Limitations on options we have proposed

169. We have proposed discounted rate options of 50% and 25% of the full non-residential levy rate. Because of the lack of incident reporting data on these property types, there is a limited basis on which to determine discounted rate options. However, we consider that these discounted rate options are substantial enough to fairly acknowledge the lack of incident reporting data and to limit the impacts on insurance costs, while being fair to owners of other property types that will be paying the full rate.

170. We have also not proposed options for caps for forests as we did not consider there was a clear divisible unit to apply a cap to. This contrasts with our treatment of aircraft or marine vessels, where there is a clear unit to apply a cap to.

Options considered for treatment of forests

171. **Option F.1 – full non-residential rate.** This option would make insurance unaffordable for forest owners and farmers. Due to the lack of incident reporting data, there is no robust evidence that applying the full rate would be more equitable than a discounted rate.

172. **Option F.2 – 50% of non-residential rate.** The analysis for applying 50% of the non-residential rate is similar to applying 25% of the non-residential rate. However, we consider applying 50% of non-residential rate would be less justified. The impacts on insurance costs would still be very high and lack of data of the benefits of Fire and Emergency's services means creating this impact is less justifiable.

173. **Option F.3 –25% of non residential rate, preferred.** This option has a much smaller impact on insurance costs than applying the full rate, and it also recognises that the lack of data makes it unclear what rate would be equitable. However, forest owners benefit to some degree from Fire and Emergency's services and this option means that they would contribute to the levy. This option fits the universality principle.

174. **Option F.4 – exempt forests.** This option emphasises the position that a lack of data should mean no levy is charged. However, forest owners do benefit to some degree from Fire and Emergency's services, so this option would not meet the universality principle.

175. A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

[43] Young trees are valued at $2000 per hectare when a few years old, increasing to a value of $30,000-$40,000 at harvest.

[44] Results of NZFOA's forestry sector survey are available at nzfoa.org.nz; PFA Olsen offers a group insurance policy with a sum-insured of approximately $10,000 per hectare.

G. Treatment of Livestock

Fire and Emergency responds to incidents on farms, but response data is incomplete

176. Fire and Emergency response data relating to livestock farms is incomplete, for similar reasons discussed above in relation to forests. Fire and Emergency's decision to stop recording property use detail relating to vegetation fires when Fire and Emergency was formed makes it difficult to develop a clear picture of resource expended responding to incidents on farms.

177. Fire and Emergency's Wildfire reports from the 2020/2021 and 2021/2022 fire seasons indicate that meat/wool and dairy farming land use accounted for a significant portion of land area burnt by wildfires. The combined proportion was 23% in 2018/2019, 25% in 2019/20, and 56% in 2020/2021. This is not sufficient to provide a clear picture of what Fire and Emergency is spending and these land use types but provides an indication of the fire risk for these sectors.

Livestock are not often insured, but impacts on insurance costs could be significant

178. Feedback from insurers indicates that livestock are rarely insured against fire. This reflects the low risk of loss by fire when animals are kept in fields. Insurance may be taken out when animals are being transported, or kept in sheds, where risk of fire peril is higher. Thoroughbred horses are also more likely to be insured due to the higher value per head, but often they will be insured against disease or other peril rather than fire specifically.

179. When they are insured against fire, premiums paid on livestock are a lower portion of sum-insured compared to many other types of property. As a result, responses from the insurance sector indicated that application of the non-residential property rate may mean as much as a 50% increase to the cost of insurance for livestock. Adjusted for the new levy rate this would be approximately 30%.

Limitations on options we have proposed

180. The options are the same as for forests, with similar limitations. We have proposed discounted rate options of 50% and 25% of the full non-residential levy rate. Because of the lack of incident reporting data on these property types, there is a limited basis on which to determine discounted rate options. However, we consider that these discounted rate options are substantial enough to fairly acknowledge the lack of incident reporting data and to limit the impacts on insurance costs, while being fair to owners of other property types that will be paying the full rate.

181. We have also not proposed options for caps for livestock as we did not identify a clear unit to apply a cap to.

Options considered

182. **Option G.1 – full non-residential rate.** This option may make insurance unaffordable for livestock farmers. Due to the lack of incident reporting data, there is no robust evidence that applying the full rate would be more equitable than a discounted rate.

183. **Option G.2 – 50% of non-residential rate.** We consider applying 50% of non-residential rate would be less justified than a 25% rate. The impacts on insurance costs would still be very high and lack of data of the benefits of Fire and Emergency's services means creating this impact is less justifiable.

184. **Option G.3 – 25% of non-residential rate, preferred.** This option has a much smaller impact on insurance costs than applying the full rate, and it also recognises that the lack of data makes it unclear what rate would be equitable. However, livestock farmers benefit to some degree from Fire and Emergency's services and this option means that they would contribute to the levy.

185. **Option G.4 – exempt livestock.** This option emphasises the position that a lack of data should mean no levy is charged. However, forest owners and livestock farmers do benefit to some degree from Fire and Emergency's services. This option would go against the universality principle.

186. A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

H. Treatment of growing crops

The current levy system already applies to insurance covering growing crops, because of how these contracts are structured

187. Fire and Emergency already collects levy on insurance policies covering crops under the current system, despite the exemption. A 2019 analysis of crop insurance options by the AgriBusiness Group notes that the fire levy is a component of all available options.[45] This is because the same contract of insurance covers crops while growing and immediately following harvest. FMG Insurance note in its submission during consultation on levy rates that the levy is paid on the sum-insured of the harvested crop (calculated on the estimated value per tonne of the crop, multiplied by the estimated yield per hectare) for the full duration of the policy.

188. The Department's view is that removal of the exemption for growing crops will have no impact on levy collection. Rural insurers expressed concern that these contracts would be double charged as a result of the change to the exemption. However, levy is already charged on the maximum amount paid out in the case of a total loss of the crop by fire.

Response data is limited, but we have not identified specific reasons why crops should pay a reduced rate

189. This analysis has already discussed the inadequate data related to Fire and Emergency's response to incidents affecting rural sectors. Based on the limited information we have about premium rates for crop policies, the levy charged at the proposed non-residential property rate has a significantly smaller impact on insurance premiums than livestock or forests.

---

[45] United Wheatgrowers Compulsory Levy - Cost benefit analysis

Options considered

190. **Option H.1 – full non-residential rate, <u>preferred</u>.** Although there is limited evidence, we do not consider this option inequitable. This option will continue the status quo under the existing levy and will have no impacts on crop insurance costs.

191. **Option H.2 – 50% of non-residential rate.** We do not think it would improve equity to apply a discounted rate for insured crops.

192. A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

I. Transport infrastructure (roads, bridges, streets, paths and tunnels)

Fire and Emergency's levy modelling does not allocate benefit to infrastructure owners

193. The removal of an existing exemption for roads, bridges, streets, paths and tunnels rested on a principled application of levy universality, that all property benefitting from a FENZ response should contribute. In the case of roading infrastructure, previous Department analysis noted that infrastructure owners benefitted from a Fire and Emergency response to fires, motor vehicle crashes or weather events.

194. However, quantifying the respective benefit for motor vehicle users from infrastructure owners is difficult in practice. Fire and Emergency's allocation model has allocated all costs of responding to motor vehicle events to the motor vehicle policyholder group. Although this was not the explicit intention of the cost allocation model, this means that motor vehicle levy amount will cover the estimated benefit to roading infrastructure owners.

Impacts for the construction of infrastructure

195. Feedback from the New Zealand Transport Agency (NZTA) indicates that public transport infrastructure is generally not insured in New Zealand while in use. This includes national roading infrastructure and local roads owned by regional authorities.

196. However, levy will be payable on insurance covering construction contracts for new infrastructure projects. Given the scale of planned infrastructure construction, levy payable on this will be significant. NZTA provided rough estimates indicating an annual spend of $5-6 billion dollars on new national roading infrastructure and an additional $2 billion from local authorities. Applying standard non-residential rates, this may mean an additional $5-6 million in levies, although this amount would be halved if a 50% rate for contract works is adopted (see following section).

Options considered

197. **Option I.1 – full non-residential rate.** This option would treat transport infrastructure as any other non-residential property.

198. **Option I.2 – exempt transport infrastructure, <u>preferred</u>.** Reflects that motor vehicle owners effectively pay for the benefits received by owners of transport infrastructure.

199. A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

J. Contract works

The new levy framework requires a change in how contract works are treated

200. Contract works policies are a subset of insurance policies applied where a property is under construction. The transitional levy framework allows for Fire and Emergency to determine the amount on which levy is calculated where sum-insured or indemnity values are not available. Currently, this is used by Fire and Emergency to charge levy at a reduced rate on contract works policy. The assumption is that property under construction is not actually worth full value it is insured for until the contract is complete. Levy is charged at 50% to reflect an average of the value of the asset while it is under construction.

201. From 1 July 2026, contract works policies will pay levy at the full non-residential rate unless stated otherwise in regulation. The new framework does not allow Fire and Emergency discretion to vary from calculating levy based on sum-insured against fire damage.

Applying a 50% levy rate will continue current treatment of contract works policies

202. Applying a 50% discount to the non-residential levy rate for contract works policies will continue the status quo, avoiding a doubling of levy paid under the new system. Data is not available about how the levy impacts contract works insurance costs, but this option will avoid adding to construction costs.

Options considered

203. **Option J.1 – default non-residential rate.** This option will charge levy on contract works policies at the same rate as other commercial property. The practical effect of this option is that levy costs on construction contracts will double when the new levy commences.

204. **Option J.2 – reduced rate (50%), preferred.** Reflects that value of the asset while under construction will not match the sum-insured, which reflects the finished value of the asset.

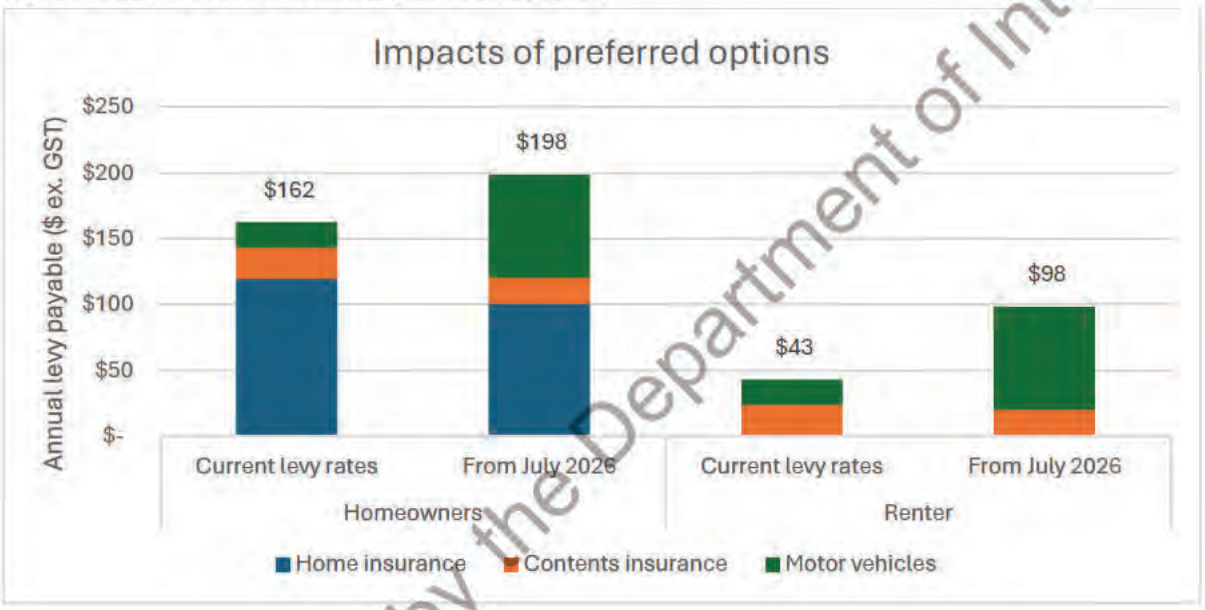
205 A table evaluating each option against the cost recovery objectives is included at **Appendix G**.

Part 5: Impact analysis

Impacts on households will primarily be determined by the number of vehicles insured

206. Residential and personal policyholders will pay less on these policies when the new levy commences. However, increases to motor vehicles will mean an overall increase to levy paid for most households. **Figure 2** displays the impact to homeowning and renting households. The levy amounts in figure 4 assume a homeowner is paying levy on a home and contents at the capped levy, plus two motor vehicles. The renter household is paying levy at the capped amount on contents, and two vehicles.

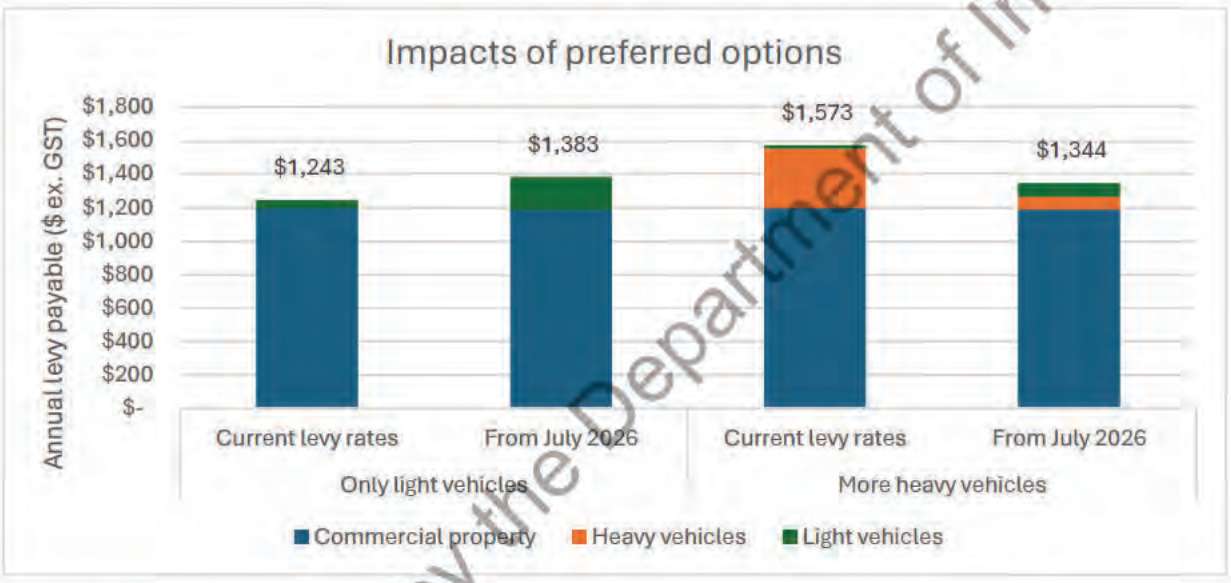
Figure 2: impact on households (per annum costs)



207. Relative levy increases will be even larger for policyholders who have third party insurance on their vehicles, as these policies currently do not attract a levy. Feedback from insurers noted that a $39 levy could represent a 20% increase to the cost of a typical third-party policy. Fire and Emergency estimates that approximately 5.6% of motor vehicle policies include only third-party cover. Increases to the cost of insurance may lead to more vehicle owners moving to third party insurance. However, this will have no impact on the levy paid, as all motor vehicle policies have a uniform amount applied.

208. Impacts on businesses will also partly depend on the number of motor vehicles it owns compared with the insurance value of its other assets. Although, impacts also depend on whether the business owns more heavy vehicles (over 3.5 tonnes[46]) or more light vehicles. **Figure 3** below demonstrate the variable impacts. The scenario on the left is where there are five light vehicles and no heavy vehicles and the scenario on the right is where there are two light vehicles and three heavy vehicles. The commercial property is assumed to have a sum-insured value of $1.64 million. Controlling for the impact of removing the ability to calculate levy on the property's indemnity value, commercial property owners will pay slightly less on average due to the non-residential policyholder group being allocated a smaller proportion of overall levy costs (reducing from $1,195 annual payment to $1,188 in this example). [47]

Figure 3: impact on businesses (per annum and controlling for impact of removing ability to calculate levy payable on indemnity value)



We lack data about how the new levy framework will impacts policyholders on mixed-use property

209. The new levy framework was designed to collect both residential and non-residential levy on mixed-use buildings, based on the proportion of each use type. Currently, where a building is more than 50% residential use, only residential levy is applied. The change will mean the commercial portions of mixed-use property will have levy applied, which could mean a significant increase in levy paid on these buildings.

[46] As noted further above, heavy vehicles have previously been treated as non-residential property but will be treated as a 'motor vehicle' within the new levy. An owner of a heavy vehicle insured for $100,000 would currently be paying $119.50 per annum. Under the new levy the annual payment would $39.

[47] The sum-insured value for the commercial property in these scenarios assumes that the reduced levy rate for non-residential property perfectly offsets the impact of removing the ability to calculate levy on its indemnity value.

210. There is a risk the extra revenue collected from mixed-use buildings will also be significant, meaning Fire and Emergency will over collect levy. Insurers have not been able to provide estimates of the amount of property affected by this change and Fire and Emergency has assumed no impact from this change for the purposes of collecting revenue. [48]

Levy on non-residential policy will increase for policyholders who currently have a low indemnity value on their property

211. The proposed non-residential levy rate of 7.26 cents per $100 sum-insured represents a 38.9% decrease from the current non-residential levy rate. As a result, policyholders could either see increases or decreases to the amount of levy paid from July 2026 depending on whether they currently calculate levy based on indemnity value. As discussed earlier in this CRIS, Fire and Emergency has estimated that the change to sum-insured will increase the base of insured property by 64%.

212. The combination of removing the indemnity calculation and reducing the rate will create uneven impacts on levy costs as outlined in **Table 20.** Indemnity represents the depreciated value of an asset, so it is more likely that policyholders insuring older property will experience the largest increase in levy. Feedback from the Insurance Brokers Association of New Zealand indicated that the sum-insured value could be as much as four times higher than the indemnity value.

Table 20: Scenarios outlining the impact of removing option to calculate levy on indemnity value (payments per annum)

	Current levy paid (ex. GST)	Proposed levy payable (ex. GST)
Sum-insured $1 million, indemnity value of $1.5 million	**$1,792.50**	**$726.00**, $1066.50 (59.5%) *decrease* in levy paid
Sum-insured $1 million, no indemnity value	**$1,195.00**	**$726.00,** $469 (38.9%) *decrease* in levy paid
Sum-insured $1 million, indemnity value of $700,000	**$836.50**	**$726.00,** $111 (13.2%) *decrease* in levy paid
Sum-insured $1 million, indemnity value of $400,000	**$478.00**	**$726.00**, $248 (51.9%) *increase* in levy paid
Sum-insured $1 million, indemnity value of $250,000	**$298.75**	**$726.00**, $427 (143.0%) *increase* in levy paid

[48] Fire and Emergency advise that to model the impact it would need comprehensive data from the insurance industry on mixed-use buildings including the current buildings that incur levy, and the supporting insurance value figures (sum-insured), to consider the scale of changes. According to the insurance industry, some of the data required to model for accuracy is not information that they currently collect and collecting this information would see costs increase for consumers.

213. In extreme cases, policyholders could expect pay almost three times as much levy. However, under the current approach (allowing for an indemnity value calculation) they have effectively been underpaying on the levy. The new approach will be fairer to all levy payers and is intended to collect the same amount of levy overall.

Caps and lower rates will mitigate the impact of the levy on sectors affected by exemption changes

A cap will mitigate large levy payments on aircraft

214. Applying a cap for aircraft means that levy payments will be proportionally larger for lower value aircraft, but increases to insurance costs due to the levy should not be more than 2-3%. The maximum amount of levy payable on aircraft, at $72.60 per year will be much smaller compared to the costs of insuring large aircraft such as passenger jets. However, these tend to have a higher premium rate, meaning levy is less relative impact. **Table 21** provides estimates of impact on insurance costs for aircraft owners, based on several examples 9(2)(b)(ii) .

Table 21: Scenarios indicating impact of levy as a proportion of premiums paid on aircraft (payments per annum)

Aircraft use	Sum-insured	Premium	Levy payable	Levy relative to premium
Sky diving	2,000,000.00	8,000.00	72.60	0.91%
Emergency response	2,000,000.00	12,800.00	72.60	0.57%
Private	5,200,000.00	72,716.00	72.60	0.10%
Tourism/charter	300,000.00	4,719.00	72.60	1.54%
Aero club	200,000.00	3,800.00	72.60	1.91%
Private	50,000.00	1,255.00	36.30	2.89%
Aero club	75,000.00	2,250.00	54.45	2.42%
Private	90,000.00	3,510.00	65.34	1.86%
Agriculture	1,600,000.00	64,000.00	72.60	0.11%
Commercial drone	10,000.00	800.00	7.26	0.91%

215. Levy amounts included in the table above assume the aircraft only fly domestic routes to indicate potential levy costs. If aircraft are used for overseas routes, the levy would not apply.

Charging a levy on forests and livestock will have uneven impacts for rural sectors

216. The options analysis section of this document has outline feedback received from stakeholders about potential costs of applying a levy to forests and livestock. Although we lack detailed data, a key issue with applying a levy is that insurance uptake is already low, so only a small proportion of property owners will actually pay levy. Insurance uptake for commercial forests is about 30%. Insurance uptake for livestock is low, but stakeholders in the sector were not able to quantify this.

217. We know little about trends in insurance uptake. Anecdotal feedback, along with survey data gathered by NZFOA, indicates that insurance uptake is highest among medium size forestry operators, as it can be a necessary factor in financing. Insurers have indicated that farmers will often insure livestock depending on circumstances such as whether animals are being housed in a barn, or whether they are being transported. **Table 20** includes high level feedback on potential impacts for policyholders, adjusted to account for the reduced levy rate proposed in this CRIS.

Table 22: estimate of impacts to insurance for forests and livestock

Property type	High level impacts of a 11.51 cent levy rate (as per consultation document)	High level impact of the preferred levy rate for forests and livestock (1.82 cents per $100 sum-insured)
Commercial forest	May add 30-110% to annual insurance costs, depending on risk profile	May add 5-20% to annual insurance costs
Livestock	May add 50% on average to annual insurance costs, depending on risk profile	May add 8% to the costs of insuring livestock.

218. Increases to insurance costs due to levy changes will come on top of rising premiums across the farming sector. Insurance premiums (across all farm categories) has risen nearly 11% in the March 2023 to 2024 period, and over the period from December 2013, the increase has been 61.4% (or around 6% per annum).[49]

219. The Beef and Lamb New Zealand farm survey from 2023 indicated that forecast insurance costs for 2023-2024 are on average $2.74 per annual across all farm types. Considered against an average animal value of $136 for sheep and $269 for cattle. Appling a levy rate of 1.82 cents per $100 sum-insured to sheep or cattle would increase insurance costs by about 1-2%. This assumes all animals are insured, which is rare. We are unable to determine what an average increase in costs would be based on actual insurance coverage.

[49] The increase in insurance costs is mapped in the Farm Expenses Prices Index, which can be found at the following link - Business price indexes: March 2024 Quarter

Impacts of other changes to exemptions

220. Some levy payers may have to pay more as a result of changes to exemptions from the levy. This is difficult to quantify, as many of the property types no longer exempt are not often explicitly included in an insurance contract but included as part of a policy covering a wider range of property. In some cases, currently exempt property may already have levy applied because it cannot be identified in an insurance policy in order to be excluded from levy calculation.

221. Submissions received by local government indicated there may be some impacts from removing the exemption on water infrastructure[50], but they did not quantify its impact. In previous consultation, we were informed that these property types are rarely insured. We did not receive feedback on any other property that Cabinet has determined will no longer be exempt.

Potential impacts of underinsurance

Potential for some households to reduce insurance cover of motor vehicles which may increase financial risk

222. A potential negative effect of these proposals would be a reduction in insurance for motor vehicles under 3.5 tonnes due to the increased motor vehicle levy amount. Households may choose to reduce the level of cover or remove cover from their motor vehicles entirely. If there is a significant shift in levels of insurance on motor vehicles, this could increase financial risk for households (as they would not be covered for damage to their motor vehicle or another motor vehicle). As noted above, the level of change of insurance uptake from these proposals is uncertain.

Proposals are unlikely to affect central or local government significantly

223. If these proposals had a negative impact on insurance levels, particularly on homes, contents and commercial buildings, there could be an expectation that local and central government take on more costs. In extreme weather events, where there is a large amount of property lost or damaged, local and central government may be expected to fill in more of the costs where there is underinsurance.

224. It is difficult to assess if there will be much change to insurance uptake as a result of these proposals, as overall cost increases will be small and the changes in costs for different policyholders will be variable.[51] Notably, costs for home and contents insurance will reduce which might support greater uptake of insurance for those property types. We consider recent increases to insurance premiums, driven by weather events and earthquakes, would have a much larger impact on levels of insurance uptake, and potential flow-on costs to local and central government, than these proposals would.

---

[50] Includes swimming baths, water tanks, water towers, septic tanks and water reticulation pipes.

[51] There will be insurance cost increases for owners of light motor vehicles and non-residential property with relatively low indemnity value. There will be insurance cost decreases for home and contents, heavy motor vehicles, and non-residential property with relatively high indemnity value.

Part 6: Conclusions and Recommendations

The proposed levy rates will increase the amount of levy Fire and Emergency collects by 2.2%

225. Fire and Emergency has estimated its net costs at $2.75 billion for the levy period. The Department considers that a 2.2% increase in levy revenue would cover these net costs with limited risk of under collecting due to weaker than projected growth in the levy base.

Preferred levy amounts for motor vehicle, residential and personal property prioritise equity and simplicity

226. On balance, we prefer a motor vehicle rated based on the cost allocation of Fire and Emergency services (Option 1) and the existing cap (Option A) for residential/personal property. The detail of these options is shown in **Table 21**.

Table 23: Summary of recommended rates for residential and personal property and recommended levy amount for motor vehicles

Policy Holder Group	Proposed levy (1 July 2026 to 30 June 2029)
Insurance for residential property	10.04 cents per $100 insured. Maximum levy amount payable: $100.40
Insurance for personal property	10.04 cents per $100 insured. Maximum levy amount payable: $20.08
Insurance for motor vehicles	$39.00 (flat rate for each motor vehicle)

227. The preferred motor vehicle option is more equitable. It means that each policyholder group pays rates based on the amount or resource Fire and Emergency uses responding to that group. The cost for attending vehicle incidents will not be subsidised by the other policyholder groups.

228. This will mean a large increase in levy on motor vehicles, due to both the cost allocation, and the change in the FENZ Act framework that means heavy vehicles no longer provide a larger portion of the of the overall motor vehicle levy revenue. The scenarios in **Appendix F** show that the savings from a lower motor vehicle rate may be partially offset by a higher residential property rate for those who insure both a vehicle and a home and contents. Lowering the motor vehicle rates would also mean non-residential policyholders will pay a higher rate of levy. It is therefore difficult to predict if and how much a lower motor vehicle rate would impact overall insurance affordability.

229. A low cap on residential and personal property is the simplest to implement and administer for insurers. Having a de facto flat rate is equitable, given that policyholders receive the same benefit from Fire and Emergency's response regardless of their property's value and sum-insured.

Specific treatment for some property classes will mitigate financial impacts for property that will no longer be exempt

230. A levy rate of 7.26 cents per $100 sum-insured will provide the revenue allocated to the non-residential policyholder group. This levy rate reflects the impacts of moving to sum-insured as the basis for calculating levy.

231. We recommend specific treatment for certain property types that will be impacted by changes to exemptions under the new levy. These have been informed by stakeholder feedback. These are summarised in **Table 22**.

Table 24: Summary of levy rates and caps proposed for non-residential property

Property type	Proposed treatment under the levy
All other property, unless specified below	7.26 cents per $100 insured. No maximum levy amount applies
Aircraft insured under a contract of aircraft hull insurance	7.26 cents per $100 insured. Maximum levy amount payable when sum-insured is more than $100,000
Forests	1.82 cents per $100 insured (25% of non-residential rate). No maximum levy amount applies
Livestock	1.82 cents per $100 insured (25% of non-residential rate). No maximum levy amount applies
Contract works	3.63 cents per $100 insured (50% of non-residential rate). No maximum levy amount applies

232. A cap for aircraft and reduced rate for forests and livestock reflect that we have limited data on which to determine an equitable levy rate. Our view is that this property should have levy applied, but we have focused on reducing the impacts of being brought into the levy for the first time.

233. Contract works, or insurance covering construction projects, will pay levy at 50% the rate of non-residential property. This is intended to maintain the status quo under the transitional levy, in that it will reflect the reduced value of assets while under construction. This will continue to provide Fire and Emergency with the flexibility to apply a 50% levy rate.

Three changes to exemptions agreed in April 2024 will improve alignment with the cost recovery objectives

234. Exemptions decided in April 2024 are included at **Appendix A**. We propose the following amendments to levy exemptions:

- Amend the exemption cover aircraft, so that all aircraft that fly international routes are exempt.
- Exempt ships/boats insured under a contract of marine insurance
- Exempt roads, bridges, streets, paths and tunnels.

235. Amending the exemption covering aircraft will clarify its scope. Although it may mean some aircraft that occasionally fly international routes will not pay levy.

236. An exemption covering boats reflects that marine incidents requiring a Fire and Emergency response are rare, especially involving large oceangoing ships. Levy will still be collected when boats are stored on trailers, or on small watercraft insured as part of a contents policy. An exemption for transport infrastructure reflects the practical difficulties quantifying the different beneficiaries of Fire and Emergency response. Fire and Emergency modelling has allocated this cost to motor vehicle policyholders.

Part 7: Implementation Plan

Finalising levy regulations by December 2024 will provide the insurance sector with necessary time for implementation

237. The new levy provisions in the FENZ Act will come into force on 1 July 2026. These will replace transitional levy provisions, which will automatically expire on this date. To operationalise the levy, policy proposals recommended here will need to be drafted into regulations. A final draft will require approval by Cabinet.

238. To provide the insurance sector with enough time to successfully implement the new levy, we intend to seek Cabinet approval of drafted regulations in December 2024. Insurers and insurance brokers have indicated that they need at least 18 months to avoid the risk of significant errors in applying the new levy rules.[52]

239. Levy rate regulations will need to be supplemented by administrative regulations and operational guidance. The Department is seeking policy approval simultaneously for administrative regulations that will provide additional instruction for the administration of the levy. These include:

- Calculation instructions for insurance contracts covering multiple property types;
- Pro-rata calculation of levy amounts;
- Waivers and extensions for levy payment; and
- Refunds.

240. Fire and Emergency will issue operational guidance to support insurance stakeholders to collect and pay levy. Fire and Emergency is planning to work with insurance stakeholders to ensure this guidance is fit for purpose.

Implementation comes with risks

241. Uncertainties associated with modelling expected revenue amounts over a five-year timeframe (June 2024 – June 2029) mean there are risks of both over an under collection during the levy period. This CRIS has already addressed different risks and mitigations associated with the amount of levy Fire and Emergency expects to collect, these include:

- the uncertainty of assumptions relating to how underlying economic growth and changes in insurance uptake drives increases in the levy base;
- the impact of changes to the levy framework on how the levy is calculated, for example the treatment of mixed-use property; and
- the impact of changes to exemptions on the levy base.

[52] The Insurance Brokers Association of New Zealand (IBANZ) advised that 24 months should be provided for implementation for brokers to be able to implement the levy. This has not been feasible and providing an additional 6 months for implementation would add further uncertainty in financial projections.

242. The levy adds to the cost of purchasing insurance and may have impacts on consumer behaviour. When considering options for levy rates, we have explicitly aimed to mitigate concerns about insurance affordability where possible. However, data is not available on the effects of price increases on decisions to purchase insurance. For many levy payers, the amount of levy paid on insurance will decrease.

243. The proposed levy rates will introduce slightly more complexity, but consideration of levy complexity has also been part of options analysis. Insurance sector stakeholders will rely on guidance produced by Fire and Emergency to provide specific instructions for collection and payment of the levy. This should be complete at a similar time as regulations.

244. Insurance stakeholders have indicated that they would need Fire and Emergency's operational guidance to be ready before they could commit to beginning implementation of the levy. This implies an expectation that the operational guidance will be completed by December 2024, in conjunction with Cabinet approval of regulations. This may be challenging to achieve, given that operational guidance relies on regulations. We will communicate policy decisions to Fire and Emergency to enable the organisation to begin the development of operational guidance in conjunction with drafting of levy rates. We are also considering approaches to sharing regulations in draft to further support this work.

Part 8: Monitoring and Evaluation

245. Existing monitoring and evaluation will be used to monitor and evaluate this change. Fire and Emergency provides regular performance updates to the Department which will provide information as to whether the intended effects of this change are occurring. These performance updates include:

- Quarterly reports;
- Statement of Performance Expectations. Fire and Emergency's performance expectations for the period will need to be developed and agreed with the Minister; and
- Annual report, including performance measures (for example, response times, speed to process fire permits, other organisational milestones).

246. These reporting mechanisms are also supplemented by regular meetings between officials at Fire and Emergency and the Department. These meetings will provide further opportunities to discuss how the levy is operating and to explore if an additional forum for monitoring the levy would be warranted.

247. The proposed levy rates will apply to the period 1 July 2026 to 30 June 2029. The Act requires the levy to be reviewed for every three-year levy period. Any information obtained during the ongoing monitoring and evaluation of the impacts will help inform advice for levy period 2029-2032. This review will need to include consideration of the aspects identified under section 142(4) of the FENZ Act.

248. We intend to explore with Fire and Emergency whether incident reporting data could be strengthened for future reviews of levy rates. Any changes to how data is collected and recorded are ultimately decisions to be made by Fire and Emergency.

Appendix A: Exemptions to the Fire and Emergency levy

April 2024 Cabinet decisions (EXP-24-MIN-0009)	Revised exemption proposals following levy rate consultation
The following list of property will be exempt from 1 July 2026	
• New Zealand Defence Force property; • mines and tunnelling operations; • reservoirs, dams, drains or channels; • offshore installations; • cabling and pipelines on the sea floor, breakwaters, moles, and groynes; • art and collections held by cultural heritage bodies; • ships that are registered internationally; • aircraft that regularly fly international routes; • goods insured for import and export;	• New Zealand Defence Force property; • mines and tunnelling operations; • reservoirs, dams, drains or channels; • offshore installations; • cabling and pipelines on the sea floor, breakwaters, moles, and groynes; • roads, bridges, streets, paths and tunnels; * • art and collections held by cultural heritage bodies; • marine vessels insured under a contract of marine insurance; ** • aircraft that fly internationally; ** • goods insured for import and export;
Three classes of insurance contract will also be exempt from the levy:	
• insurance for war and terrorism risks, where the property is also insured under an all-risks policy; • deductible buydown insurance; • insurance covering existing property as part of contracts works policy.	• insurance for war and terrorism risks, where the property is also insured under an all-risks policy; • deductible buydown insurance; • insurance covering existing property as part of contracts works policy.
* Additional exemption proposed ** Amendment to scope of exemption proposed	

Appendix B: Breakdown of net costs

	2026-2027	2027-2028	2028-2029	Total	% of Total
	($ million excl. GST)				
Operating Costs					
Salaries and Wages - Firefighter	271.6	279.6	286.8	**838.0**	30%
Salaries and Wages - Non-Firefighter	240.1	251.6	261.2	**752.9**	27%
Other Personnel	53.0	53.1	52.1	**158.2**	6%
Information and Communications Technology	44.4	42.1	43.0	**129.5**	5%
Clothing & Uniforms and Operational Equipment & Consumables	33.0	33.8	34.5	**101.3**	4%
Fleet	31.7	32.3	33.0	**97.0**	4%
Occupancy	33.0	33.7	34.4	**101.1**	4%
Professional fees/Consultancy	17.6	15.0	14.8	**47.4**	2%
Finance Costs (Interest and Loan Repayments)	12.9	12.5	12.2	**37.6**	1%
Travel	14.5	18.1	18.7	**51.3**	2%
Other Expenses	20.1	20.5	21.1	**61.7**	2%
Volunteers	8.2	8.2	8.7	**25.1**	1%
Grants & Donations	4.9	5.0	5.1	**15.0**	1%
Insurance	7.0	7.2	7.3	**21.5**	1%
Total	**792.0**	**812.7**	**832.9**	**2,437.6**	**89%**
Capital Costs					
Capital - Property	62.6	66.2	77.4	**206.2**	7%
Capital - Fleet	24.1	23.1	17.4	**64.6**	2%
Capital - Equipment	18.9	17.0	15.5	**51.4**	2%
Capital - ICT	14.4	13.7	13.7	**41.8**	2%
LESS Non-Levy Revenue	(18.4)	(17.8)	(18.7)	**(54.9)**	-2%
Total	**101.6**	**102.2**	**105.3**	**309.1**	**11%**
Total	**893.6**	**914.9**	**938.2**	**2,746.7**	**100%**

Appendix C: Example of additional function (medical response)

Fire and Emergency advise that the amount of savings available from reducing investment in medical response is fairly limited. Removing the medical response function altogether would create more substantial savings of approximately $20 million per year (including by removing overheads) but this would be a significant change.

Fire and Emergency has extensive network coverage, which means it sometimes arrives quicker at a medical emergency than ambulances can.[53] Early arrival for medical response has a material benefit for outcomes for patients. The Out-of-Hospital Cardiac Arrest Report 2022 -2023, indicates that early arrival by Fire and Emergency or a First Response Group improves survival rates of cardiac arrest incidents from 20% to 34% (survival of the event) and from 8% to 21% (30-day survival).[54]

Submitter feedback did not suggest a reduction in medical services as a whole, but that Fire and Emergency should not be taking on a service that is led by ambulance service providers (particularly because it is subsidised by levy payers). Exploring options to replace Fire and Emergency's services with ambulance services would require broader consideration of the emergency management system. A programme of work would need to be established with other agencies and organisations (e.g., Hato Hone St John).

[53] Data from Fire and Emergency indicates that in 2023 Fire and Emergency arrived first at urban incidents 50% of the time and first at rural incidents 36% of the time. Similar results were achieved in 2022 and 2021.

[54] The report was developed by Hato Hone St John, Wellington Free Ambulance and AUT. It is available from the Wellington Free Ambulance website at www.wfa.org.nz/about-us/news/out-of-hospital-cardiac-arrest-report-2022-2023. Similar outcomes are reported in the 2021/22 report.

Appendix D: List of strategic initiatives

Technology Replacement

- Contributing to the Public Safety Network Upgrade – tablets in fire trucks and inflation
- Replacement of out-of-support Payroll and Human Resources system
- Replacement of legacy (2001) Financial Management Information System
- Shift levy management system from Access database to modern platform

Other – FBT/Carbon

- Pay for carbon offsets from 2025/26 as emissions cannot move to zero
- Fringe Benefit Tax on firefighter income and life insurance agreed in industrial bargaining

Operational Capability Improvement

- Training and equipment so firefighters can 'Work Safely in Water'
- Training so Fire Commanders can demonstrate competency at incidents
- Operating costs of additional live fire training facilities

Stakeholder representation

- Costs of supporting nine additional Local Advisory Committees
- Initial/ongoing costs of Kaupapa Māori and Cultural Communities Branch

Workplace Culture Improvement

- Cost of responding to the Public Service Commission's Review of Culture and Complaint Handling
- Programme to improve the way the organisation serves Māori communities

Retaining our workforce

- Increased costs of covering rising firefighter sick and other leave since COVID 19
- Compensating volunteer firefighters attending long duration incidents (+24 hours)
- Net cost of additional firefighter FTEs introduced to reduced firefighter overtime
- Training of additional firefighter FTEs introduced to reduce firefighter overtime
- Expectation of additional staff required to fulfil organisation functions

Health and Safety

- Meeting the cost of an increasing number of occupational cancer claims
- Replacing end-of-life equipment used for decontamination in hazardous spills
- Replacing and improving gas detection equipment used at incidents
- Undertaking detailed seismic assessments of fire stations and other properties

Appendix E: Cost allocation

Overview of the cost allocation methodology

1

Categorising costs

Using a set of defined rules and assumptions, costs from the general ledger are allocated to one of three cost pools:

- Direct Costs
- Corporate overheads
- Response/Readiness costs

The allocation rules are based on cost type and specific business units, and apportion costs to a number of activity groups. Any costs remaining after apportioning Direct Costs and Corporate Overheads flow into the Response/Readiness cost pool – the cost of the standing army and the bulk of Fire and Emergency costs.

2

Calculate Direct Cost of Response

The Direct Cost pool is allocated to specific activity groups based on incidence response data. This calculation is based on the time spent responding to an incident type multiplied by an hourly rate of response. This hourly rate of response is determined by the total cost and the minimum shift staffing levels assumptions.

This data enables us to 'cost the time' spent on different types of incidents to allocate to activities.

After incident driven costs are removed from this pool, the remaining costs, reflecting time not attending an incident – a readiness overhead amount.

3

Allocate overheads

Corporate overheads and remain overhead relating to readiness are then allocated to Activitys based on the proportion of direct costs as calculated in Steps 1 and 2.

With direct costs being attributed to Activitys and non-Activity activities, overhead amounts are not fully reflected in Activity related activity.

4

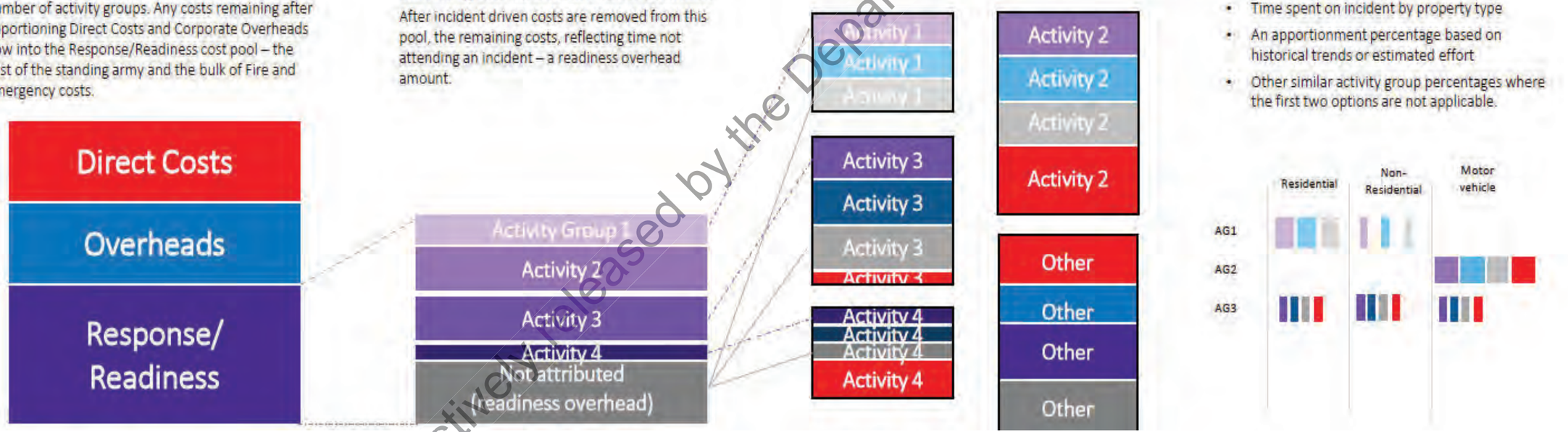
Policy Holder Group allocation

Each activity group cost pool is then attributed to one of three PHGs:

- Residential
- Non-residential
- Motor Vehicles

This allocation is made based on one of three allocation drivers ,based on whether it is an incident or non-incident activity:

- Time spent on incident by property type
- An apportionment percentage based on historical trends or estimated effort
- Other similar activity group percentages where the first two options are not applicable.



Cost allocations to activity groups

Annual totals ($000, ex GST)	2026/27	2027/28	2028/29	3 year Total
Monitoring and enforcement	5,179	5,276	5,414	**15,869**
Advice on Hazardous Substances	334	339	346	**1,019**
Medical Response	20,137	20,429	20,799	**61,365**
Other Responses	15,757	16,031	16,340	**48,128**
Non transport related rescue	3,229	3,320	3,405	**9,954**
Advice on Building Design	3,506	3,563	3,667	**10,736**
Fire Response, Structural	185,906	191,824	194,782	**572,512**
Fire Response, Vegetation	246,640	253,649	257,968	**758,257**
Fire Response, Other	169,908	175,557	178,478	**523,943**
Motor Vehicle Response	110,339	113,446	115,665	**339,450**
Fire Prevention	47,964	48,928	50,452	**147,344**
Education	29,594	30,035	30,752	**90,381**
USAR	32,313	28,768	34,764	**95,845**
Hazardous Substances	19,614	20,490	22,106	**62,210**
Natural Disaster	3,189	3,238	3,308	**9,735**
Total	**893,609**	**914,893**	**938,246**	**2,746,748**

Activity Group costs apportionment to Policy Holder Groups

	3 Year Totals ($000, ex GST)			
	Residential	Non-Residential	Motor Vehicles	Total
Monitoring and enforcement	3,566	8,998	3,305	**15,869**
Advice on Hazardous Substances	229	578	212	**1,019**
Medical Response	44,284	17,081	0	**61,365**
Other Responses	18,365	29,745	18	**48,128**
Non transport related rescue	3,350	6,604	0	**9,954**
Advice on Building Design	0	10,736	0	**10,736**
Fire Response, Structural	327,493	244,516	503	**572,512**
Fire Response, Vegetation	17,289	740,968	0	**758,257**
Fire Response, Other	68,761	352,291	102,891	**523,943**
Motor Vehicle Response	0	0	339,450	**339,450**
Fire Prevention	73,672	73,672	0	**147,344**
Education	67,786	22,595	0	**90,381**
USAR	26,652	69,020	173	**95,845**
Hazardous Substances	7,000	55,154	56	**62,210**
Natural Disaster	6,839	2,891	5	**9,735**
Total	**665,286**	**1,634,849**	**446,613**	**2,746,748**

Detailed breakdown of costs by activity group and policyholder group

Figures below are $(millions) for the three-year levy period 1 July 2026 – 30 June 2029.

	Residential PHG				
	Direct costs (including response)	**Corporate Overheads**	**Readiness Overhead**	**Non-levy revenue**	**Total costs**
Advice on Building Design	-	-	-	-	**-**
Advice on Hazardous Substantances	140	94	-	(5)	**229**
Education	41,270	27,895	-	(1,379)	**67,786**
Fire Prevention	45,592	30,821	-	(2,741)	**73,672**
Fire Response, Other	14,225	9,614	45,427	(504)	**68,762**
Fire Response, Structural	68,038	45,983	217,270	(3,799)	**327,492**
Fire Response, Vegetation	3,577	2,417	11,422	(127)	**17,289**
Hazardous Substantances	1,447	979	4,625	(51)	**7,000**
Medical_Response	26,963	18,222	-	(901)	**44,284**
Monitor and enforcement	2,171	1,467	-	(73)	**3,565**
Motor Vehicle Response	-	-	-	-	**-**
Natural Disaster	4,165	2,814	-	(139)	**6,840**
Non transport related rescue	699	473	2,203	(25)	**3,350**
Other_Responses	11,182	7,557	-	(374)	**18,365**
USAR	5,547	3,752	17,713	(360)	**26,652**
Total	**225,016**	**152,088**	**298,660**	**(10,478)**	**665,286**

	Non-Residential PHG				
	Direct costs (including response)	**Corporate Overheads**	**Readiness Overhead**	**Non-levy revenue**	**Total costs**
Advice on Building Design	6,536	4,418	-	(218)	**10,736**
Advice on Hazardous Substantances	352	238	-	(12)	**578**
Education	13,757	9,298	-	(460)	**22,595**
Fire Prevention	45,592	30,821	-	(2,741)	**73,672**
Fire Response, Other	72,879	49,257	232,739	(2,582)	**352,293**
Fire Response, Structural	50,800	34,332	162,220	(2,836)	**244,516**
Fire Response, Vegetation	153,293	103,598	489,509	(5,432)	**740,968**
Hazardous Substantances	11,404	7,717	36,436	(404)	**55,153**
Medical_Response	10,400	7,028	-	(347)	**17,081**
Monitor and enforcement	5,479	3,703	-	(183)	**8,999**
Motor Vehicle Response	-	-	-	-	**-**
Natural Disaster	1,760	1,189	-	(59)	**2,890**
Non transport related rescue	1,379	932	4,342	(49)	**6,604**
Other_Responses	18,109	12,240	-	(605)	**29,744**
USAR	14,364	9,716	45,873	(933)	**69,020**
Total	**406,104**	**274,487**	**971,119**	**(16,861)**	**1,634,849**

	Motor Vehicles PHG				
	Direct costs (including response)	**Corporate Overheads**	**Readiness Overhead**	**Non-levy revenue**	**Total costs**
Advice on Building Design	-	-	-	-	**-**
Advice on Hazardous Substantances	129	87	-	(4)	**212**
Education	-	-	-	-	**-**
Fire Prevention	-	-	-	-	**-**
Fire Response, Other	21,286	14,386	67,970	(754)	**102,888**
Fire Response, Structural	105	71	334	(6)	**504**
Fire Response, Vegetation	-	-	-	-	**-**
Hazardous Substantances	12	8	37	-	**57**
Medical_Response	-	-	-	-	**-**
Monitor and enforcement	2,012	1,360	-	(67)	**3,305**
Motor Vehicle Response	70,225	47,461	224,253	(2,489)	**339,450**
Natural Disaster	3	2	-	-	**5**
Non transport related rescue	-	-	-	-	**-**
Other_Responses	11	8	-	-	**19**
USAR	36	24	115	(2)	**173**
Total	**93,819**	**63,407**	**292,709**	**(3,322)**	**446,613**

Appendix F: Levy rate scenarios for households

Table 1 below outlines several scenarios, illustrating the annual costs motor vehicle and residential/personal property policyholders may have under different combinations of options. Option B.2 (increased caps) is not included as it would not provide any other insights that Option B.3 (homeowner with median sum-insured) does not already provide. Table 2 provides an example of the flow on effects of the motor vehicle rates options on non-residential property. The second briefing will outline proposals for non-residential property in detail.

Table 1: Impact on motor vehicle and residential/personal property policyholders under each motor vehicle rate option

			Cost recovery vehicle rate (Option A.1)	Discounted vehicle rate (Option A.2)	
	Scenario	***Insurance type***	***Annual levy payable***		***Comments***
Low caps on residential and personal property (Option B.1)	**Homeowner - any sums insured**	Home insurance	$100	$107	Almost all policyholders will be paying levy at the capped amount, meaning there is no distinction between households.
		Contents insurance	$20	$21	
		Motor vehicles	$78	$50	
		Household total	$198	$179	
	Renter	Home insurance	-	-	**Renting household:** $40,000 contents policy Two motor vehicles
		Contents insurance	$20	$21	
		Motor vehicles	$78	$50	
		Household total	$98	$71	
Uncapped rate on residential and personal property (Option B.3)	**Homeowner - low sums insured**	Home insurance	$63	$68	**Homeowner - lower sums insured:** $430,000 residential policy $40,000 contents policy Two motor vehicles
		Contents insurance	$6	$6	
		Motor vehicles	$78	$50	
		Household total	$147	$124	
	Homeowner - median sums insured	Home insurance	$88	$94	**Homeowner - median sums insured:** $600,000 residential policy $75,000 contents policy Two motor vehicles
		Contents insurance	$11	$12	
		Motor vehicles	$78	$50	
		Household total	$177	$156	
	Homeowner - high sums insured	Home insurance	$125	$133	**Homeowner - higher sums insured:** $850,000 residential policy $125,000 contents policy Two motor vehicles
		Contents insurance	$18	$20	
		Motor vehicles	$78	$50	
		Household total	$221	$203	

	Renter	Home insurance	-	-	**Renting household:** $40,000 contents policy Two motor vehicles
		Contents insurance	$6	$6	
		Motor vehicles	$78	$50	
		Household total	$84	$56	

Table 2: Impact on non-residential property policyholders under each motor vehicle rate option

	Cost recovery vehicle rate (Option 1)	Discounted vehicle rate (Option 2)	
	Annual levy payable ($)		*Comments*
Example small business: $1million sum-insured non-residential property	$726	$776	A discounted motor vehicle levy amount will mean a 7% increase to levy paid on non-residential property

Appendix G: Multicriteria Analysis of levy rate options for specific property types under non-residential levy

Domestic Aircraft

Aircraft flying domestic routes	Option C.1 – Full non-residential rate	Option C.2 – Full rate capped at $100,000 sum-insured (preferred)	Option C.3 – Exempt all aircraft
Universality	Aircraft will contribute, reflecting benefit from Fire and Emergency. ✓	Very small decrease in universality, as some aircraft flying occasional international flights will be excluded from levy. ✓	No contribution from aircraft policyholders. x
Equity	We estimate around 50-60 incidents a year, which is significant considering the low numbers of aircraft. This is mitigated by the fact that many of these call out only require Fire and Emergency to stand by in case of serious emergency. This still incurs readiness costs for Fire and Emergency. The high insured value of these assets means applying a full levy rate has inequitable results x	Likely to improve equity, but this is difficult to measure accurately due to a lack of understanding from Fire and Emergency about what it spends on readiness and response. Fire and Emergency attends more aircraft incidents per aircraft than motor vehicle responses for every motor vehicle, but these are often precautionary measures. (✓)	Avoids undesirable outcomes associated with large levy bills for larger more expensive aircraft. However, aircraft would avoid contributing to the levy, despite Fire and Emergency playing an important role in aviation safety. x
Simplicity	Policyholders may be incentivised to structure insurance so to avoid levy. For high value aircraft it may be cheaper to adjust flight paths for a plane than pay levy. x	Some in the insurance sector have raised additional costs of setting up a cap mechanism. Because of the small number of aircraft, levy calculation is unlikely to rely on automated systems, so we do not anticipate tis adding widespread complexity. A capped amount can be calculated based on information insurers routinely collect. ✓	Requires no change for insurers from what is done under the transitional levy. ✓

Insurance affordability	Severe impacts on the cost of insurance. This is particularly impactful for larger aircraft such as passenger jets, which pay a lower premium relative to the sum-insured. Sector representatives note that many aviation operators would be driven out of business or forced to raise prices significantly. x	This will mitigate the affordability issues raised by option C.1 significantly. The higher value of aircraft insured, the greater the benefit from this option will be. Smaller aircraft have much higher premium rates, meaning levy makes a smaller relative impact. However, sector feedback still notes that a capped levy will be an unwelcome expense for private aircraft owners or small commercial operations. ✓	Levy has no impact on the cost of insuring aircraft. ✓

Marine vessels

New Zealand Ships (marine vessels of all sizes)	Option E.1 – Full non-residential rate	Option E.2 – Full rate capped at sum-insured of $50,000	Option E.3 – full rate capped at sum insured of $25,000	Option E.4 – exempt all marine vessels (preferred)
Universality	Ships will contribute, benefit from Fire and Emergency is unclear from response data. (✓)	Same as option 1 (✓)	Same as option 1 (✓)	No contribution from marine policyholders x
Equity	FENZ data indicates about 150 incidents a year involving boats. This is low compared to the number of boats in New Zealand. Large commercial ships will be paying thousands in levy but unlikely to receive a Fire and Emergency response. They are required to have own onboard response and will be at sea most of the time. We have limited information about numbers of boats, even less about how often they are insured. x	Difficult to measure the impact on equity. Given the low number of incidents, amount paid may be inequitable for trailered boats which also pay motor vehic e levy on trailers x	Difficult to measure the impact on equity. Given the low number of incidents, amount paid may be inequitable for trailered boats which also pay motor vehicle levy on the trailers. x	An improvement against option E.1, as it avoids the undesirable outcomes for large ship owners. Policyholders for trailered boats will still pay motor vehicle levy on the trailer, while those who insure small watercraft under a contents policy, will also be paying levy at the personal property rate. (✓)
Simplicity	Does not raise significant complexity/clarity issues. ✓	Insurers have provided conflicting feedback about difficulties applying a cap. The issue seems to be around building a cap into new systems. (✓)	Same as option 2, although a larger proportion of marine policies will pay the maximum levy amount. (✓)	This option is preferred by insurers, as requires no levy calculation on marine insurance contracts. ✓

Insurance affordability	Large ships will attract large levy bills, in some cases more than doubling the current cost of insurance. We don't know much about recreational boats but survey data suggests most are stored on land meaning they already attract levy. x	This will mitigate the affordability issues raised by option 1 significantly. Some ships insured for storage on land but value more than the level of cap will see a decrease in levy paid. We do not know how many. x	Decrease in levy paid for many boat owners. Unlikely to be a significant portion of insurance costs for larger boats. ✓	Levy has no impact on the cost of insuring ships at sea. Trailer boats will save on levy paid, this could be significant for high value boat stored on land. ✓

Forests

Forests	Option F.1 – Full non-residential rate	Option F.2 – 50% of non-residential rate	Option F.3 – 25% of non-residential rate (preferred)	Option F.4 – exempt forests
Universality	Forest fires and wildfires are a key focus of Fire and Emergency and a core responsibility. Forest owners benefit from this work. ✓	Recognises that forest owners benefit from Fire and Emergency work. ✓	Recognises that forest owners benefit from Fire and Emergency work. ✓	Forest owners do not contribute to funding Fire and Emergency x
Equity	Fire and Emergency has not been able to quantify the resources it uses protecting forests. Forestry sector notes that the industry also invests in fire reduction. There is limited data available about the equity of a standard non-residential rates for forests. (✓)	Due to lack of data, it is not clear that application of the standard rate to forests would be inequitable. There is significant benefit, but we can't quantify it with the information Fire and Emergency has. (✓)	Due to lack of data, it is not clear that application of the standard rate to forests would be inequitable. There is significant benefit, but we can't quantify it with the information Fire and Emergency has. (✓)	Lack of data about benefit for forest owners, however, not paying anything is not equitable. x
Simplicity	No notable issues related to this criterion ✓	No notable issues related to this criterion ✓	No notable issues related to this criterion ✓	Does not require any change from insurers ✓
Insurance affordability	Significant increase to costs of insuring property – 9(2)(b)(ii) this will be on average a 30% increase (18% - 66% range). The sector argues that this will cause insurance uptake to decrease from already low rates, around 30-35%. x	A lower rate will have a lower impact on affordability (10% - 40%), proportionate to where the rate is sent. Information is not available about the different in impact on insurance uptake. x	Mitigates impacts to affordability (5% - 20% based on rough estimate) ✓	Will continue status quo, with no impacts to insurance affordability. ✓

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion

Livestock

Livestock	Option G.1 – Full non-residential rate	Option G.2 – 50% of non-residential rate	Option G.3 – 25% of non-residential rate (preferred)	Option 4 – exempt livestock
Universality	Recognises that forest owners benefit from Fire and Emergency response. ✓	Recognises that forest owners benefit from Fire and Emergency response. ✓	Recognises that forest owners benefit from Fire and Emergency response. ✓	Livestock policies do not contribute to funding Fire and Emergency x
Equity	No data about how often they are insured, and very limited information about responses involving this property. Wildfire reports indicate that 23-56% area of wildfire burn between 2018 and 2021 was dairy or meat/wool land area. (✓)	Due to lack of data, it is not clear that application of a reduced rate to forests would be inequitable. There is significant benefit, but we can't quantify it with the information Fire and Emergency has. (✓)	Due to lack of data, it is not clear that application of a reduced rate to forests would be inequitable. There is significant benefit, but we can't quantify it with the information Fire and Emergency has. (✓)	We lack data about benefit for livestock owners, however, not paying anything will not increase equity. x
Simplicity	No notable issues related to this criterion ✓	No notable issues related to this criterion ✓	No notable issues related to this criterion ✓	No notable issues related to this criterion ✓
Insurance affordability	Insurers note that livestock is rarely insured – often only when being transported or stored in a shed temporarily. The levy to premium ratio is very high (similar to forests), meaning levy will add about 30% to the actual costs of insuring the assets. x	A lower rate will have a lower impact on affordability, proportionate to where the rate is sent. Information is not available about how this might affect insurance uptake. x	Further mitigates impacts to insurance affordability. ✓	Will continue status quo, with no impacts to insurance affordability. ✓

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion

Crops

Crops	Option H.1 – full non-residential rate (preferred)	Option H.2 – 50% of non-residential rate
Universality	FENZ respond to a range of issues at horticultural farms, this included vegetation fires, but data is no longer collected. ✓	FENZ respond to a range of issues at horticultural farms, this included vegetation fires, but data is no longer collected. ✓
Equity	No data about how often they are insured, and very limited information about responses involving this property. ✓	Due to lack of data, it is not clear that application of the standard rate to crops would be inequitable. There is significant benefit, but we can't quantify it with the information FENZ has. (✓)
Simplicity/clarity	No notable issues related to this criterion ✓	No notable issues related to this criterion ✓
Insurance affordability	Levy already paid on this property because of how policies are structured. Comparison of different crop insurance products from 2019 notes that levy makes up about 5% of premium. ✓	Crop framers who do insure will get a discount on insurance paid, relative to the extent of the reduced rate. ✓

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion

Transport infrastructure

Transport infrastructure (roads bridges, streets paths and tunnels)	Option I.1 – Full non-residential levy rate	Option I.2 – Exempt transport infrastructure (preferred)
Universality	Reflects the principle that there is some benefit from Fire and Emergency for owners of road. ✓	Does not align with the principle that there is some benefit from Fire and Emergency for owners of road. x
Equity	Does not align with Fire and Emergency approach to allocating levy costs. The model has not distinguished benefit to infrastructure owners from vehicle owners. x	Reflects that the cost allocation model has allocated this benefit to the motor vehicle owners. This is a reasonable generalisation to make because this benefit cannot be easily distinguished through response data. ✓
Simplicity	No significant issues raised ✓	No significant issues raised ✓
Insurance affordability	Roading assets are not insured in New Zealand, so levy will not be paid on the full value of the network in use. NZTA notes that there will be a significant levy contribution due to its construction projects for new infrastructure. This will also mean costs for local governments, which partially fund local roading projects. Assuming a 50% levy rate for contract works, this amount will be half of any estimates made using the default non-residential rate x	Retains status quo. ✓

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion

Contract works

Contract works	Option J.1 – Full non-residential levy rate	Option J.2 – 50% of non-residential rate
Universality	Levy will be paid on contract works insurance. ✓	Levy will be paid on contract works insurance. ✓
Equity	Because projects are insured based on the value of a finished asset (or amount of work completed at the end of a set period. The actual value of the asset will be less than the sum-insured. Levy will be paid on a value that represents something that doesn't yet exist. x	Aligns levy with an average of the value of the asset over the contract period. ✓
Simplicity	No significant issues raised ✓	No significant issues raised ✓
Insurance affordability	Will double the cost of levy on insurance for contract works policies compared to current practise. Insurance on contract works is compulsory, so insurance won't be avoided, but this will add to the costs of contraction for no gain in equity. x	Maintains current situation, meaning no impact to the cost of construction beyond any changes to levy rates themselves. ✓

Key: ✓ meets criterion (✓) may meet criterion, but no clear evidence × does not meet criterion