Regulatory impact statement

Fire Services Review

Agency disclosure statement

This Regulatory Impact Statement has been prepared by the Department of Internal Affairs. It provides an analysis of options to reform the New Zealand fire services. Should these proposals be accepted, it is expected that a further Cabinet paper outlining more detail of the option design and transition will be developed.

This RIS is limited by a lack of data. For example, there is no single, national, incident reporting data for the fire services, so a lot of specific information of the work undertaken in the rural fire sector is unknown. Further, each of the 52 Rural Fire Authorities, would have to collect data in a way that could be shared in order to effectively analyse the activities of all of them. These issues are expected to be resolved through implementation of the proposed reforms, particularly if the fire services are unified. The reforms would introduce improved systems providing the ability to report on, analyse and monitor performance.

The Fire Services Review team and the New Zealand Fire Service have limited data on which to baseline existing delivery of services and capability across the fire services. This limits the confidence with which modelling can be done, efficiency gains can be identified, and so on.

One significant remaining question is the impact of the proposed funding reforms on the private sector. Any change to the levy will have an effect on private sector and not for profit entities. However, due to commercial sensitivity and privacy we are unable to access the data and therefore cannot model the nature and extent of this impact.

It is intended for the funding proposals to be given effect by regulations, which will be developed once drafting of the legislation has commenced. Detailed work will be required on the levy, charging on self-insurance, avoidance mechanisms, information collected by the insurance sector and other matters. Cabinet will be asked to consider these issues in more specific detail early in the new year. Full impact analysis on the detailed levy design options and settings will be provided at that time. A Regulatory Impact Statement will support that process if appropriate.

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Executive summary

This Regulatory Impact Statement (RIS) presents analysis relating to sector reform of fire services in New Zealand, including reform of the governance and support of the fire services as well as how they are funded. Although this is a single programme of reform, for ease and clarity 'governance and support' (Part 1) and 'funding' (Part 2) are treated separately.

With regards to governance and support, options along a spectrum, from continuing with the separation of urban and rural fire through to full integration, were considered. These options are seeking to deal with: changing expectations of fire services; lack of coordination and variable leadership; inconsistent investment for community needs; and impacts of different cultures within the services. The option with the best potential to resolve the problems, and deliver against the objectives and critical success factors is a unified model with regional influence (delivered through committees).

Funding sources across the fire services: do not adequately align costs to where the potential type of service use lies; are out of date and open to interpretation; and do not adequately align to the fire services' strategic planning and monitoring. The option that will best resolve the problems, and deliver against the objectives and critical success factors is a mixed funding model, which includes a modified insurance levy, and a levy charged on self-insurance arrangements, contribution from the National Land Transport Fund (NLTF) and a Crown contribution.

Because this reform goes beyond structure and funding and seeks to deliver broad sector change, including significant cultural change, considerable planning for implementation of the proposals and transition to the new arrangements has already begun.

It is proposed that a new fire services organisation emerge from this reform. However, despite having a new name and new culture, it will legally not be an entirely new Crown entity. The Department of Internal Affairs' (DIA) Crown entity monitoring function will continue but will be more effective due to the structural changes proposed.

Background

1. New Zealand's fire services have not fundamentally changed since the 1940s. A national urban fire service was established in 1976 under the New Zealand Fire Service Commission (the Commission), but the largely independent volunteer brigade structure was retained. In the rural sector, the Rural Fire Authorities (RFAs) were set up by the Forest and Rural Fire Act 1947 following the disastrous 1946 fire season. The last significant change in rural fire services occurred in the late 1970s, with the passing of the Forest and Rural Fires Act 1977, which emphasised risk reduction and prevention measures.

2. Some change has occurred in the rural fire sector, with the voluntary merger of rural fire districts into Enlarged Rural Fire Districts (ERFDs) from the mid-1990s. The National Rural Fire Authority (NRFA) was established in 1991 to provide national leadership and coordination in the rural sector.

3. The current Crown entity model is appropriate. Further, the State Services Commission (SSC) 'Machinery of Government'[1] advice is clear that cultural change is not a reason to establish a new entity. The industrial and employment issues this would raise would also make it extremely difficult and costly to implement.

[1] http://www.ssc.govt.nz/sites/all/files/reviewing-mog.pdf

Part 1: Governance and support

Status quo

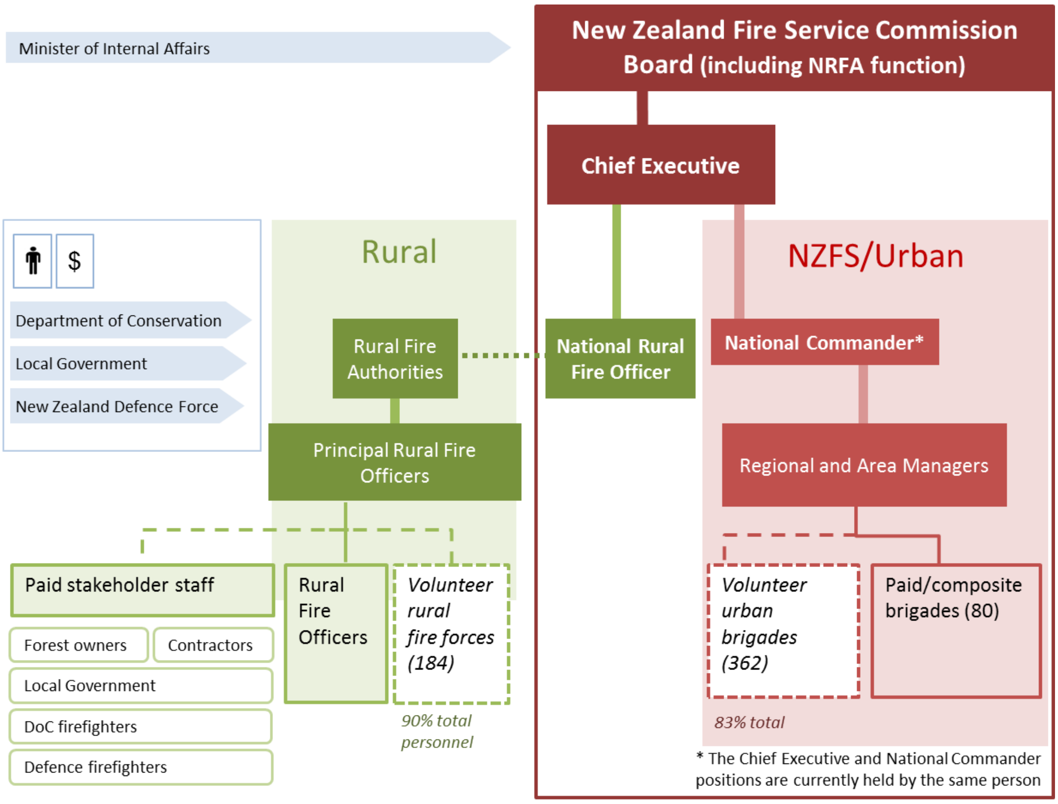
4. The current model for delivery of fire services in New Zealand is shown in **Error! Reference source not found.**, below. The services are made up of three ey sectors:

    - services that operate primarily in rural communities whose prime focus is managing vegetation fire risks, such as RFAs, the Department of Conservation (DoC), New Zealand Defence Force (NZDF), forest companies and Volunteer Rural Fire Forces (VRFFs);
    - services that operate in urban communities and rural towns, such as New Zealand Fire Service (NZFS) career and volunteer fire brigades; and
    - privately-funded services that operate on behalf of private business owners (industrial brigades), such as airports and large commercial operations.

5. There are differences in the way these various fire services and their workforces operate, as well as how they are structured, legislated, mandated, governed and funded.

6. The Commission is the Crown entity responsible for coordination of fire safety throughout New Zealand. The board that governs the Crown entity is also known as the Commission. The NZFS is the operational arm of the Commission, which provides fire services through the volunteer and career brigades based in urban communities and rural towns, and administrative support (through national headquarters and regional offices). The NRFA is the part of the Commission that coordinates and promotes rural fire control matters.

Figure 1: Current governance and management structures



Workforce demographics

7. The fire services' workforce includes both paid and volunteer staff and is in the region of 13,000 people.

8. Volunteers – a very high proportion of firefighting personnel in both rural and urban areas are volunteers, with rural towns serviced completely by volunteers. However, the rural volunteer workforce is declining in numbers. This is partly due to external factors such as the aging population and the increasing trend of rural migration to urban areas, and the mechanisation of the rural workforce. Rigidity in training and compliance requirements, the burden of administration and other management factors, as well as changing expectations and demands on firefighters also contribute to this decline.

9. NZFS has a paid workforce of 1,700 firefighters (with a total of 2,500 including management and support staff) in addition to its volunteer workforce (of 8,300).

10. Rural fire – there are currently 52 RFAs. These include local authorities, the Minister of Conservation, the Minister of Defence, and rural fire committees. Twelve of these 52 RFAs are ERFDs where a number of RFAs have amalgamated and are governed by rural fire committees.

11. Each of the RFAs employs a Principal Rural Fire Officer (PRFO) and there is a total of 150 Rural Fire Officers across the 52 RFAs. 3,400 volunteers deliver rural fire services and the NRFA employs eight staff. In addition, there are numerous paid staff employed by RFAs and landholders who spend part of their time working on rural fire activities but also have other roles (e.g. in local authorities building inspectors may also have a role in supporting rural fire activities). There is no comprehensive data about the total effort and workforce that actually supports the delivery of rural fire services.

Scope of fire services

12. The fire services are recognised for their significant contribution to New Zealand. This includes:

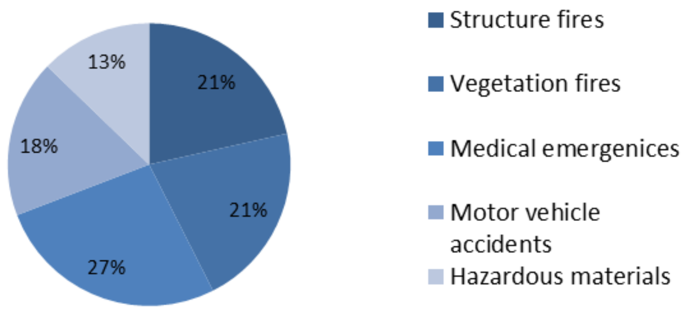
- the protection of people, property and the environment by providing a prompt and efficient response to fires and other emergencies;
- encouragement of fire safe behaviour and practice through pro-active public education and rural fire coordination; and
- building resilient communities by preparing for and responding to a broad range of fire and non-fire emergencies in collaboration with other agencies.

13. This contribution is closely linked with the '4Rs' of emergency management: reduction, readiness, response, and recovery.

14. Therefore, more than just 'responding' to incidents, the fire services in New Zealand provide a 'readiness' capability. They are effectively a 'standing army' in many communities with few or no other services. This readiness has enabled the fire services to evolve to respond to a wide range of incidents. Once the readiness is secure, the marginal cost of attending more incidents is low.

15. While fire services were established to coordinate fire safety across New Zealand, as Figure 2 shows, many of the incidents that the fire services now respond to are non-fire related. These incidents include responding to hazardous material, vehicle extrication, urban rescue, and severe weather and natural disaster incidents. In many cases they fall outside the legislative mandate of the fire services.

Figure 2: NZFS responses by incident type in 2012-13



16. The primary mandate of the NZFS is to protect life and property from fire in urban areas. The Fire Service Act 1975 also provides Chief Fire Officers some discretion to attend and assist at other emergencies where they consider that their brigade could render assistance.

17. According to the Forest and Rural Fires Act 1977, the primary mandate of rural fire services is to safeguard life and property from fire in forest and rural areas and other areas of vegetation. Unlike the NZFS, rural fire services have no discretion to attend other emergencies as there is for the NZFS.

Relationship with other emergency services

18. To carry out its duties most effectively, the fire services have established partnerships with a broad range of organisations, particularly those that are responsible for providing emergency services. At a strategic level the fire services work closely with other emergency services through the Emergency Services Coordination Group, which includes the Chief Executives of each emergency service.

19. Fire Protection Agreements (under the Fire Service Act 1975 and Forest and Rural Fires Act 1977) and Memoranda of Understanding (MoU) are also in place with a large number of emergency services and other organisations. The key relationship agreements are outlined in the table below.

Table 1: Relationships between the fire services and other organisations

Partner organisation	Nature of agreement
New Zealand Defence Force (NZDF)	NZFS and NZDF cooperate on the provision of training and support capabilities for NZFS Urban Search and Rescue (USAR) to enable it to respond effectively to an emergency in New Zealand or internationally. The agencies also work together to provide training and support to their respective personnel. NZDF are also the RFA in Defence areas (DRFA), so NZDF significantly contributes to fire and non-fire capability, which can extend beyond the boundaries of the areas, in support of NZFS and RFAs.
Maritime New Zealand (MNZ)	NZFS has a role in assisting MNZ in responding to emergency calls during an incident involving hazardous substances on a ship berthed in port in New Zealand.
New Zealand Police	NZFS assists with breathing apparatus and confined spaces training for the New Zealand Police's Specialist Search Group.
St John New Zealand	NZFS and St John support each other to provide a high quality response to emergency situations, including: • co-response situations, where both organisations are required to respond simultaneously • first response situations, where a qualified resource is dispatched to provide patient care until a more qualified ambulance resource arrives • non-medical assistance, where non-medical assistance is required from NZFS (e.g. extraction)

Partner organisation	Nature of agreement
	• ambulance standby, where an ambulance is requested to be on standby by NZFS
Ministry of Civil Defence and Emergency Management (MCDEM)	NZFS and MCDEM are required to coordinate before and during a civil defence emergency, specifically in relation to: • national warning capability • Geographical Information Systems information and support.
Ambulance New Zealand	Ambulance New Zealand, NZFS and the New Zealand Police have established a collaborative working relationship concerned with enhancing community safety through: • developing protocols for specific procedures and activities • consulting on strategic priorities, procedures and activities • communication and media strategies • information sharing • coordination at senior management level.
Department of Conservation	NZFS and DoC provide mutual assistance in the interest of suppressing and controlling fires and training for personnel. The Minister of Conservation is a RFA for all public conservation lands.
Queensland Fire and Emergency Services (QFES)	NZFS and QFES offer mutual aid, in particular the NZFS scientific branch is involved in the provision of hazmat advice for training and emergencies.
Wellington Free Ambulance	NZFS and Wellington Free Ambulance have a collaborative working relationship centred on information sharing, use of appliances or vehicles and equipment and training.

Problem definition

20. The current legislative framework for the fire services is highly prescriptive and does not align with current best practice (for example, with the Crown Entities Act 2004), and the organisational model provided for is complex. New legislation on resource management, civil defence, local government, employment, and health and safety accountability and responsibility has all been passed but old fire services legislation makes it difficult for the fire services to change.

21. However, the problems and consequences discussed here (and summarised in Figure 3) go beyond this and have come from the review team's consideration of the *Report of the Fire Review Panel* (Swain Report),[2] available evidence, discussions with stakeholders, and analysis of submissions. This review has access to more information than the Fire Review Panel did about the issues facing the fire services, partly because more time has passed. Further, this review has a wider scope, allowing more issues to be considered.

22. There are four major problems relating to the governance and support of the fire services:
    - changing expectations of fire services;
    - lack of coordination and variable leadership;
    - inconsistent investment for community needs; and
    - differences in culture leading to operational issues.

23. The first problem is that expectations have changed and will continue to change as highlighted in the status quo. The legal framework that supports the work of the fire services has also not kept pace with the evolution of 'fire' services and does not reflect the nature or scope of service delivery. This creates fear amongst firefighters that legal action could be taken for operating outside of their mandate.

24. The second problem is a lack of coordination and variable leadership. Consequences of this include:
    - a lack of coordinated support for, and focus on, all volunteer firefighters;
    - sometimes there is poor operational coordination between RFAs and NZFS brigades;
    - sometimes there is a lack of coordination at a strategic level, for example, the NZFS and NRFA do not work together on national fire reduction programmes;
    - a lack of national oversight of rural fire governance;
    - a limited ability of the NRFA to respond when a RFA or ERFD is falling below expected standards; and

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[2] Adamson, D., Drummond, P., Swain, P., Wood, J. (2012). *Report of the Fire Review Panel*. Wellington: Department of Internal Affairs. www.dia.govt.nz/fireservicesreview.

- insufficient national information systems to support fire services. For example, there is no single, comprehensive, national incident reporting system for rural fire services. This results in communities receiving varying services, depending on whether they live in an urban or rural fire district.

25. **Error! Reference source not found.** above illustrates the distinct split in the overnance and management structures between urban and rural fire services. These arrangements are complex and involve a number of independent entities with gaps in accountability (indicated by dotted lines). This structural separation, which is underpinned by systems and processes that are not integrated, makes consistent decision-making, service delivery, and efficient/effective distribution of resources challenging. It also gives rise to cultural differences amongst the urban and rural workforce and between paid and volunteer personnel that can lead to operational difficulties.

26. Investment is also inconsistent with community needs. This has led to underinvestment in people, including training, equipment and uniforms in the rural sector, and support for urban and rural volunteers. More generally there is underinvestment in rural fire, particularly around a nationally coordinated fire reduction programme.

27. Finally, there are cultural differences, in terms of operations and attitudes, between rural and urban as well as between paid and volunteer firefighters. This issue became apparent through analysis of the submissions[3] received on the *Fire Services Review: Discussion Document*,[4] which was released for consultation on 27 May 2015 (Discussion Document).

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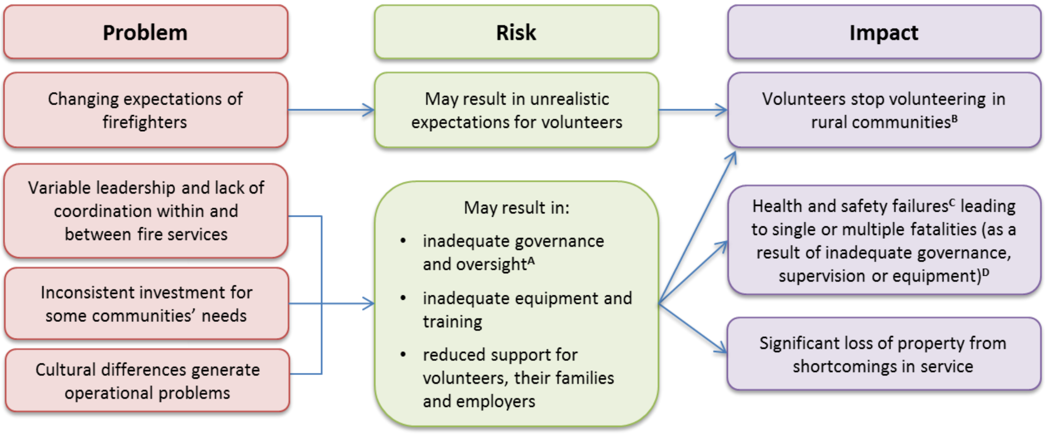
[3] The Submissions Report can be found here: http://www.dia.govt.nz/vwluResources/FSR-Summary-of-submissions-PDF/$file/FSR-Submissions-summary-report-v2.pdf

[4] http://www.dia.govt.nz/Fire-Services-Review

Figure 3: Summarised problem definition for the fire services review



[A] The continued independence of New Zealand Fire Service brigades is making it difficult for the New Zealand Fire Service Commission to ensure that service quality and the necessary oversight are appropriately provided.

[B] The overall urbanisation and aging of the population means that it is harder to find rural volunteers (Statistics NZ Internal Migration 2001-2006). This decrease could lead to the withdrawal of fire services from communities, or levy payers must fund a paid workforce to prevent this consequence.

[C] A review by the National Rural Fire Authority showed eight of nine Rural Fire Authorities had governance or management deficiencies in readiness and all nine had some operational deficiencies related to safety or training (sources: Papatotara fire (2004), Maringi Fore fire (2006), Selwyn Road fire (2013), Wye Creek fire (2008), Kaimaumau fire (2010), Mosquito Gully fire (2011), Para Road fire (2008), Great Barrier Island fire (2013), Flagg Bay fire (2013)).

[D] With respect to urban fire services, we know from significant events that people can be harmed with inadequate national oversight (eg Ballantynes Fire 1941). For health and safety failures that lead to fatalities, the consequence is the possibility of an event on the scale of the Pike River Coal Mine Tragedy.

28. The potential risks of an ineffective fire service to the economy, private property, the environment and lives, are significant. There is potential for a future where the country no longer has enough firefighters.[5] Research is ongoing but early indications suggest that some NZFS volunteer fire brigades are at risk. The full extent of this is at present unknown, however, with an ageing population and other pressures, it is likely that this pressure will increase. The proposed reforms, particularly the improved support for volunteers seek to mitigate this risk.

29. However, in the current state, there is potential for:

- having to choose between paying for the service nationally and/or seeing some rural services disappear;
- multiple fatality incidents of firefighters due to inadequate governance, supervision and equipment;[6] and

[5] The overall urbanisation of the population means that some rural areas are finding it harder to provide a reliable supply of volunteers (Statistics NZ Internal Migration 2001-2006). The aging of the population will also continue to create a growing demand for emergency services that are also attended by the fire services. Further, NZFS has identified 30 volunteer brigades that have 70% or less than the number of members a brigade should have.

[6] A review by the NRFA of nine recent operational reviews showed that eight out of nine RFAs had governance or management deficiencies in readiness. The reviews were Papatotara fire (2004), Maringi Fore fire (2006), Selwyn Road fire (2013), Wye Creek fire (2008), Kaimaumau fire (2010), Mosquito Gully fire (2011), Para Road fire (2008), Great Barrier Island fire (2013), Flagg Bay fire (2013). The continued structural 'independence' of New Zealand Fire Service Volunteer brigades is making it difficult for the New Zealand Fire Service Commission to ensure volunteer firefighters are adequately supported and the necessary oversight is appropriately provided.

- no agency or organisation having clear responsibility for the adequacy of services to the public.

30. It is clear that the fire services contribute heavily to preventing loss of life or serious injury, suppressing fires and reducing damage to property. However the full economic benefits are not well understood. By way of indication, the total economic cost of rural fire over a five year period is understood to be approximately $585 million.[7] Even in one area, the loss can be great. For example, in the Poutu Peninsula, Kaipara between 2004/05 and 2012/13, three Department of Conversation reserves were destroyed and $24.86 million of exotic timber plantations were lost.[8] The potential risks that the fire services protect against are huge. It is therefore important to ensure its long-term effectiveness.

[7] BERL Economics 2009, *the Economic Cost of Wildfires* (based on data from 2000-2002).
[8] National Rural Fire Authority statistics.

Objectives

31. New Zealand needs flexible, coordinated fire services that consistently match needs and risks, have strong leadership, and are fit for purpose now and into the future. Fire services should support firefighters to be more effective in their community.

32. To achieve this, the review has four governance and support reform objectives, to:
    - improve consistency[9] and effectiveness;
    - improve flexibility;
    - improve governance and accountability; and
    - contribute through partnership to regional resilience.

33. There are some potential tensions for example between improved consistency and improved flexibility. Option preference needs to consider any trade-offs that might be necessary in pursuit of the best equilibrium between competing objectives.

34. The critical success factors were determined to be the extent to which the:
    - option will enable fire services to better achieve the strategic direction;
    - option will adequately meet stakeholder expectations;
    - option is achievable within timeframes and budget;
    - proposed budget for the option is affordable; and
    - option will enable the benefits of the review to be delivered.

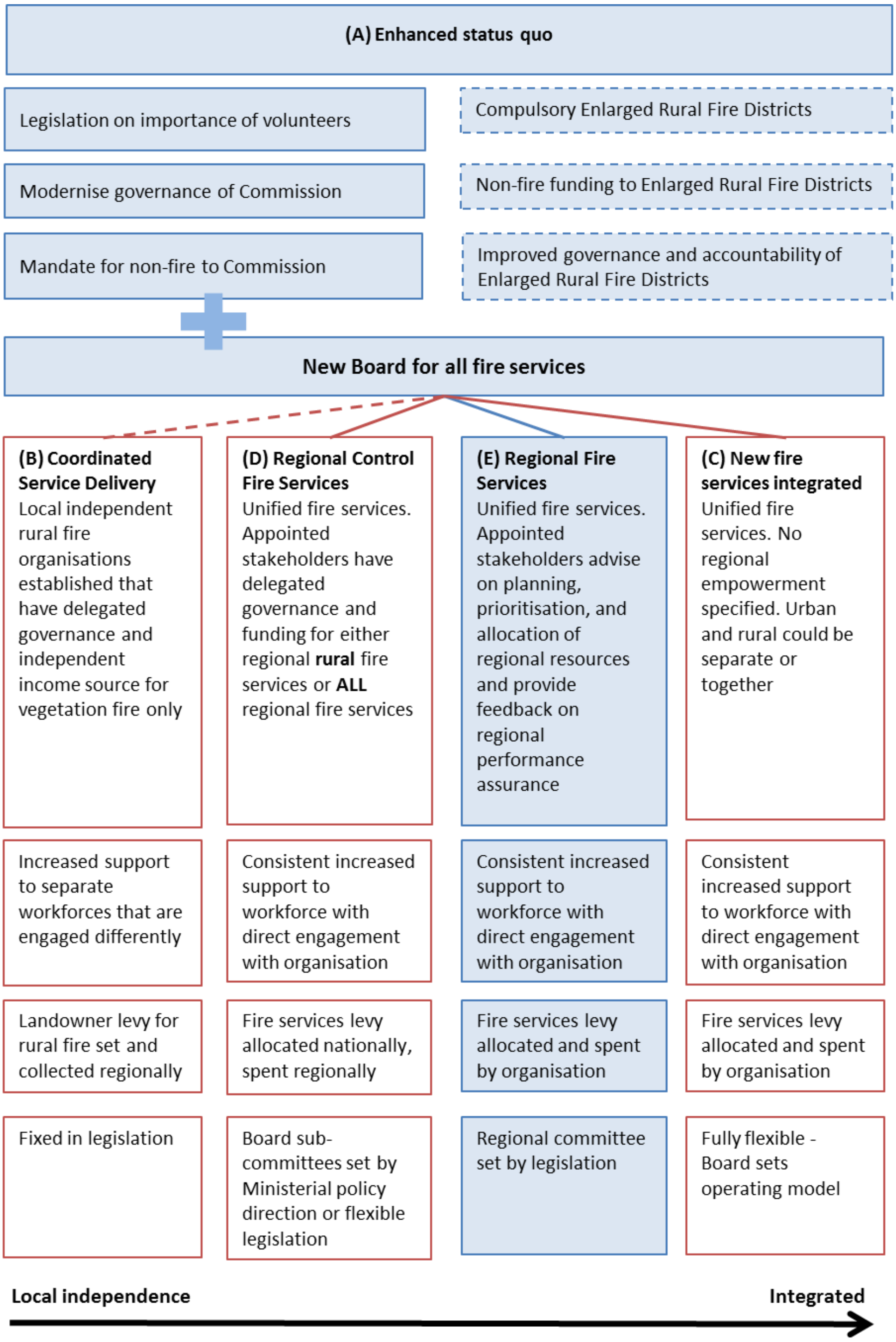
35. These factors require consideration of the timeframes across which benefits of change can be expected and the relative costs of the different options being weighed against the delivery of the objectives.

[9] Consistent service to meet needs, not 'one-size-fits-all'.

Options

36. Three options (Enhanced Status Quo, Co-ordinated Service Delivery, and a New Integrated Fire Service), representing no change, some change, and significant change, were presented in the Discussion Document. They were reconsidered and redeveloped, allowing consideration of a full range of options from no change through to full integration, summarised in Figure 4.

Figure 4: Summary of the five possible governance and support options



37. In Table 2, all options are evaluated against the review objectives and critical success factors outlined above. Those that have significantly failed to either meet the objectives and/or deliver one or more of the critical success factors were discounted. This left a short list of options, shaded in Table 2.

Table 2: Description of the Governance and support options and assessment against the objectives

	Status Quo	Enhanced Status Quo[10]	Co-ordinated Service Delivery[11]	Regional Control	Regional Influence	Integrated[12]
	Local Independence					Integrated
Description	No change	Improved mandate and some greater clarity about roles and accountabilities	Service delivery as current but with an optimised ERFD model that works to clearer national guidelines under transparent service level agreements	Local sub-committees of the new fire services commission are created. Membership includes key stakeholders who have a formal position in the governance of the new fire services. Stakeholders are both responsible and accountable for service delivery	Local advisory groups (comprised of communities of interest) are established that are consulted by the appropriate local management body of the new fire services. A formal means of escalation to the National Board is present if this is not carried out in good faith	Fully integrated national fire services with the whole workforce in a relationship with the new fire services organisation. Structure is decided by the new fire services. Rural fire could be managed separately or together with the other services.
Pros	No change	Smaller cultural shift and easily achievable.	National oversight with national guidelines and standards	National integration. Mitigates trust issues by ensuring broad and significant engagement in the new organisation among rural stakeholders	National integration. Balances national control with regional influence. Inclusive of stakeholders. Efficient.	National integration. Efficient, minimises bureaucracy and reduces commitment on rural stakeholders
Cons	No change	Problems not fully addressed. Enablers for more integration and co-ordination are not created	Highly bureaucratic and would require extensive monitoring to give assurance of effective governance. Not flexible given the independence of regional service delivery (for rural and for volunteer brigades)	Likely to require up to 16 regional sub-committees. Bureaucratic with confusion between national and regional governance roles, may require more governance capability than communities have the willingness or ability to provide	Wears the risk of being seen as superficial (continuing to treat rural as the 'poor cousin')	Strong stakeholder resistance resulting in reduced likelihood of reform success
Objective 1: improve consistency and effectiveness	No change	**Partially met** - wider mandate and better funding, support and governance but the different governance arrangement means there is no consistent oversight of how different needs are met	**Partially met** - wider mandate and better funding, support and governance but the different governance arrangement means there is no consistent oversight of how different needs are met	**Substantially met** – unified organisation means that it is possible to drive the culture and service changes that are needed to improve fire services but regional funding control limits some national gains (eg. procurement)	**Fully met** – unified organisation with regional committees means it is possible to drive the culture service changes while balancing regional needs	**Substantially met** – unified organisation means it is possible to drive the culture service changes that are needed to improve fire services but might be less effective than it could be if stakeholders could advise on regional service delivery needs
Objective 2: Improve flexibility	No change	**Partially met** – regional variations are enabled but ability to deliver national change is very limited	**Partially met** – regional variations are enabled but ability to deliver national change is very limited	**Substantially met** – regional variations are enabled but ability to deliver national change is reduced because of the regional independence	**Fully met** – regional variations are enabled and appropriately balanced with ability to deliver national change	**Not met** – doesn't provide for regional variation
Objective 3: improve governance and accountability	No change	**Partially met** – would improve governance and accountability of ERFDs. Bureaucratic with multiple governance layers	**Partially met** – the Commission would have oversight of the entities but they are still very removed from government accountability or oversight. Bureaucratic with multiple governance layers	**Partially met** – bureaucratic with multiple governance layers that might result in reduced accountability. Separate regional responsibilities prevent achieving a fully inclusive culture	**Substantially met** – less bureaucratic because the committee has a management and accountability focus rather than governance. Fully unified organisation helps achieve inclusive culture	**Fully met** – integrated organisation has single responsibility for all fire services

[10] This is a variation of Option 1: Enhanced Status Quo from the Discussion Document.
[11] This was Option 2: Coordinated Service Delivery in the Discussion Document.
[12] This was Option 3: One National Fire Service in the Discussion Document.

	Status Quo	Enhanced Status Quo[10]	Co-ordinated Service Delivery[11]	Regional Control	Regional Influence	Integrated[12]
Objective 4: contribute through partnership to regional resilience	No change	**Partially met** – ERFDs have strong networks with communities of interest, but it will be difficult to support and coordinate the volunteer workforce, which places continued pressure on rural communities	**Partially met** – ERFDs have strong networks with communities of interest, but it will be difficult to support and coordinate the volunteer workforce, which places continued pressure on rural communities	**Fully met** – communities and communities of interest would be engaged, have a strong governing role over the services in their region, and there are stronger strategic links and engagement with civil defence and emergency services	**Fully met** – communities and communities of interest would be engaged, have a strong advisory role over the services in their region, and there are stronger strategic links and engagement with civil defence and emergency services	**Not met** – because regional communities are not empowered to be resilient. Partnership approach with volunteers is also more difficult to achieve. Communities have less say over fire services
Summary	**No change**	**Partially met**	**Partially met**	**Substantially met**	**Fully met**	**Not met**
Critical success factor: enables progress to fire services strategic direction	No change	**Partially met –** improved governance and accountability could help ensure agencies work together strategically, but will be limited by territorial authority funding and willingness to support the ERFDs	**Not met –** does not enable strong strategic levers to ensure independent organisations follow a shared strategic direction	**Not met –** would be difficult to manage if the regional control decided to over-ride the national direction	**Fully met –** would enable a consistent strategic direction because regional committee advise on national direction and support regional planning within the national direction.	**Substantially met –** would deliver unified fire services and will provide mechanisms to achieve a consistent strategic direction but would miss out on the regional resilience.
Critical success factor: adequately addresses stakeholder expectations	No change	**Partially met –** there will be some support for this option but it will disappoint many stakeholders.	**Partially met –** there was some support for this option during the consultation process but practical difficulties (eg bureaucracy) would make this option difficult to engage with.	**Partially met –** there would be some support for this option but practical difficulties (eg bureaucracy) would make this option difficult to engage with.	**Substantially met –** this option would address many of the expectations about change but there could be some small pockets of strong opposition.	**Partially met –** there was some support for this option during consultation but much of it was qualified (wanting a regional element) so it would disappoint many stakeholders.
Critical success factor: optimises benefits	No change	**Partially met –** this option would deliver limited review benefits	**Partially met** – this option would not deliver sufficient consistency or flexibility	**Partially met** – this option would deliver many benefits but would be hampered by technical difficulties and bureaucracy	**Substantially met –** this option is the most likely to enable the review benefits to be achieved	**Partially met –** this option would deliver many benefits but not adequately contribute to community resilience
Critical success factor: timeframes in which benefits can be expected	No change	**Substantially met –** any benefits likely to be met comparatively, simply and quickly	**Substantially met** – a smaller change option but would still require cultural and other change, which could be expected to be delivered over a long timeframe	**Partially met –** there would be a significant implementation programme that would require enhanced capability and capacity. Benefits would be expected over a longer term	**Partially met –** there would be a significant implementation programme that would require enhanced capability and capacity. Benefits would be expected over a longer term	**Partially met** – this option requires the biggest change**.** Benefits would be expected over a longer term
Critical success factor: affordability	No change	**Substantially met –** this is the least cost option. Ongoing inefficiencies may mean that this might be more costly over the longer term	**Partially met –** this option would likely increase costs	**Partially met –** this option would increase costs (although some of this is greater transparency of existing costs) and levy changes would be essential to deliver it.	**Partially met –** this option would increase costs (although some of this is greater transparency of existing costs) and levy changes would be essential to deliver it. Over time improved efficiencies could reduce the cost.	**Partially met –** this option would increase costs and levy changes would be essential to deliver it.
Summary	**No change**	**Partially met**	**Not met**	**Not met**	**Substantially met**	**Partially met**

Discarded options

Status quo

38. The status quo is discussed in detail above. Analysed against the review objectives and the critical success factors, it was discarded. However, it remains in use as a benchmark against which the remaining options can be measured.

Co-ordinated service delivery

39. The co-ordinated service delivery model was presented in the Discussion Document. This would retain the role of RFAs as distinct from the Commission, although in a new format.

40. Under this option a new fire services Board that was accountable for both urban and rural fire and non-fire emergencies would be created. It would set standards and service delivery requirements for non-fire emergencies in the same way that the Commission does today for rural fires.

41. Service Level Agreements would be negotiated between the new fire services Board and the new RFAs to cover funding and service requirements for all fire and non-fire emergencies. This option would address national governance for non-fire emergencies. Through the new RFAs, it would deliver a more integrated, better governed approach to the management of all fire and non-fire emergencies across New Zealand.

42. Funding arrangements would also be simplified for some current contributors.

43. However, while this option would deliver some benefits, as can be seen in Table 2, it fails to meet a critical success factor.

New unified fire services with regional control

44. This option seeks to strike a balance between national and regional control but with the balance tipped towards the regions.

45. To provide genuine regional control, this option would establish local sub-committees of the new fire services organisation. Membership would include key stakeholders who would have a formal position in the governance of the new fire services. Stakeholders would become both responsible and accountable for service delivery.

46. This option would deliver some of the benefits of unification, such as one national organisation providing common support services (training, procurement and administration).

47. This option would likely require up to 16 regional sub-committees, and would be heavily bureaucratic. It would likely generate confusion between national and regional governance roles, and may require more governance capability than communities have the willingness or ability to provide.

48. Under this model, funding would also be complex. Current arrangements through rates (which go to existing RFAs) would be unlikely to continue due to the proposed reforms of the funding model (see Part 2, below) – local government would make a contribution through the fire service levy (based on sum insured or total assets insured) rather than funding regional sub-committees directly. There would also be complexities around how local government would support the fire services contribution to civil defence, emergency management and resource management planning functions.

49. Although this option was analysed somewhat favourably against the review objectives, the practical technical and bureaucratic difficulties of these arrangements, and failure to meet a critical success factor led to this option being discarded.

New fully integrated fire services

50. This option was also described in the Discussion Document. A fully integrated service would generate efficiencies from centralising administration. However, this model could suffer from over centralisation and result in the delivery of a one-size-fits-all approach that does not adequately account for diverse local and regional needs. The size of change also carries significant risk in terms of continuing ability to deliver essential services.

51. This option fails to meet review objectives. Strong stakeholder resistance to full integration would also likely impact successful implementation of this option.

Short-listed options

Enhanced status quo

52. Cabinet agreed a number of the recommendations made in the Swain Report,[13] but this review has a broader scope and was asked to go beyond the Swain Review. Therefore, the Enhanced Status Quo includes the Swain Report recommendations agreed or changed by Cabinet in September 2013 and accepted by the Commission, and several additional aspects to address some governance and accountability issues:

- put in legislation the importance of volunteers to fire services;
- revise the governance structure of the Commission;
- improve the clarity of some roles and responsibilities by giving the Commission the mandate for non-fire response and power to authorise other agencies, including RFAs, to respond to non-fire incidents;
- making ERFDs compulsory;
- providing non-fire funding and support from the Commission to authorised ERFDs; and
- improving the governance and accountability of ERFDs.

[13] Cabinet Minute [EGI Min (13) 20/5] refers.

53. No change would be made to rural fire funding because the legal and financial accountabilities of local government and ERFDs would stay the same. ERFDs would be the legal and financial 'owners' of rural fire. Territorial Authorities would be significant legal and financial contributors.

54. This option would deliver some benefits quite quickly and comparatively cheaply, but the benefits delivered would be far fewer than those expected to be delivered by the preferred option.

55. This option was supported by some submitters (22 submissions), especially where there is good leadership in their brigade, area, or district.

Unified Fire Services with Regional Influence Model

56. As seen in Table 2, this option best meets the objectives and critical success factors. This option also strikes a balance between national and regional control.

57. To avoid some of the practical technical and bureaucratic issues, this option would establish regional committees. In designing the regional committees consideration was given to a number of existing models that work effectively, particularly the Regional Land Transport Committees. Membership would include key stakeholders who would provide a strong regional influence including through regional planning, within the boundaries of the national strategy.

58. Key elements of the model include:

- one national organisation providing common support services, such as training, procurement and administration;
- a consistent centralised funding mechanism;
- each community's fire station would be provisioned according to the local risks, such as vegetation fire, structure fire, or other incident. Given this, the distinction between rural and urban becomes arbitrary. Each community would have a fire service with the right skills and competencies to deliver the services the community needs;
- establishing a number of regional committees (up to 16). Management would be obliged to work with the committees, which would be made up of a range of stakeholders;
- local government would continue to stay closely involved with fire services, possibly as stakeholders on committees, and in how the fire services contribute to civil defence and resource management obligations;
- VRFF and NZFS brigades become part of the new fire services and benefit from common support services and integrated operating procedures;
- no named roles to align better with the Crown Entities Act 2004 and allow flexibility for the Board to work with stakeholders and its workforce on the new organisation's structure;
- maintain distinct professional capabilities to deal with wildfires, e.g. specialised rural firefighters and rural fire managers; and

- maintain use of rural fire contractors in managing larger wildfires.

59. This model has had good support from a large number of stakeholders. The majority of stakeholders accept the benefits of being part of a unified organisation but are concerned about losing their local voice and seeing community services erode. There is a clear and overwhelming voice for communities to be meaningfully engaged in how their fire services operate. The regional committee can ensure that the national organisation works collaboratively with its regional stakeholders.

Impact analysis

60. The costs identified in the table below are an indicative estimate of combining NZFS, NRFA and 52 independent RFAs (including ERFDs) into a unified structure with regional committees. The change also brings the close to 600 NZFS volunteer fire brigades and VRFFs into the new unified structure as well. The costs are additional to the costs of providing the current services provided by NZFS.

Table 3 Indicative costs for new organisation with regional committees

Costs ($millions)	2016/17	2017/18	2018/19	2019/20	2020/21
Ongoing expenditure (operational and capital)	0.19	7.26	70.28	69.39	69.3
Transition costs	3.52	23.62	38.01	28.11	18.68
Total	**3.71**	**30.88**	**108.29**	**97.5**	**87.98**

61. The key cost drivers in the proposed changes are:

- support for volunteers will cost $17.18 million in 2019/20 (included in the expenditure in Table 3 above);
- absorbing the costs already met by RFAs and from cost recovery into the new organisation (so representing a transfer of costs);
- addressing some under-investment in rural and structure fire, where the under investment poses immediate risks to workforce safety or the ability to protect life, environment; and
- costs to manage and govern the transition programme.

62. The following assumptions have been made:

- it will take time for the operating changes to be implemented (expected by 2019), but some of these costs could be phased differently (so costs in 2019 could be lower, but total cost stays the same);
- costs are increased because wages would be paid to staff who join the unified organisation from rural fire; and
- contingency is excluded for the time being.

63. This compares with the costs associated with the Enhanced Status quo option, see Table 4 below.

Table 4 Indicative costs for enhanced status quo governance and support option

$M	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Ongoing Expenditure (operational and capital)	0.19	5.33	28.55	30.67	25.98	29.17
Transition Costs	2.13	12.23	13.15	8.44	5.75	0
Total	**2.32**	**17.56**	**41.7**	**39.11**	**31.73**	**29.17**

64. As discussed above, in the options analysis section, while the Enhanced Status Quo would cost less it is expected to deliver fewer benefits, particularly over the long term.

65. There are cost pressures on the current fire service levy (see below). Given these cost pressures, the Commission is developing options to meet the increased costs for 2016/17 including the trade-offs and risks between the options. For 2017/18 onwards the increased costs that result from the proposed reforms would be funded from increased rates applied to the funding base. As the levy year runs from April-March, the 2017/18 increase will be decided by the Commission and the Minister of Internal Affairs using the current process. The first new 3 year funding cycle with the increased funding base would apply from 2018/19. The costs of the changes can be smoothed across funding cycles if that is appropriate.

66. The key cost drivers in the proposed changes are:

- supporting volunteers;
- absorbing the costs already met by RFAs and ERFDs into the new fire service organisation (so representing a transfer of costs);
- addressing some of the under investment in both rural fire and NZFS, where the under investment poses immediate risks to workforce safety or the ability to protect life, environment, and property; and
- transition costs.

67. The following assumptions have been made:

- it will take time for the operating changes to be implemented (expected by 2019), but some of these costs could be phased differently (so costs in 2019 could be lower, but total cost stays the same);
- costs are increased for the regional influence model as these include paying wages to staff from rural fire who join the unified organisation;
- contingency is excluded for the time being; and
- high priority capital expenditure costs in rural and structure fire services is included, but not the full costs of addressing the rural and structure fire services under investment.

68. The transition design, including the timing of phasing and how property and asset transfers should be managed, is intended to be developed with stakeholders. Each existing region has different arrangements, so a one size fits all approach cannot be taken. For the time being property and asset transfers are not included in the costs. There is a risk that there might be significant cost increases, depending on the arrangements agreed with affected agencies.

69. The costs include all the known costs for rural fire (RFAs, VRFFs, contractors, and so on). The forecast costs reflect that rural fire operations are different from NZFS. It also reflects a service model this is flexible to volunteer capability and availability.

70. Rural fire makes up a significant part of the steady state ongoing operating cost of $76 million dollars. Most of these costs are associated with: incorporating the existing network of rural fire stations; equipment and appliances; the incorporation of approximately 170 full time equivalents currently employed in rural fire; and, the increased corporate overheads associated with running a larger organisation.

Part 2: Funding

Status quo

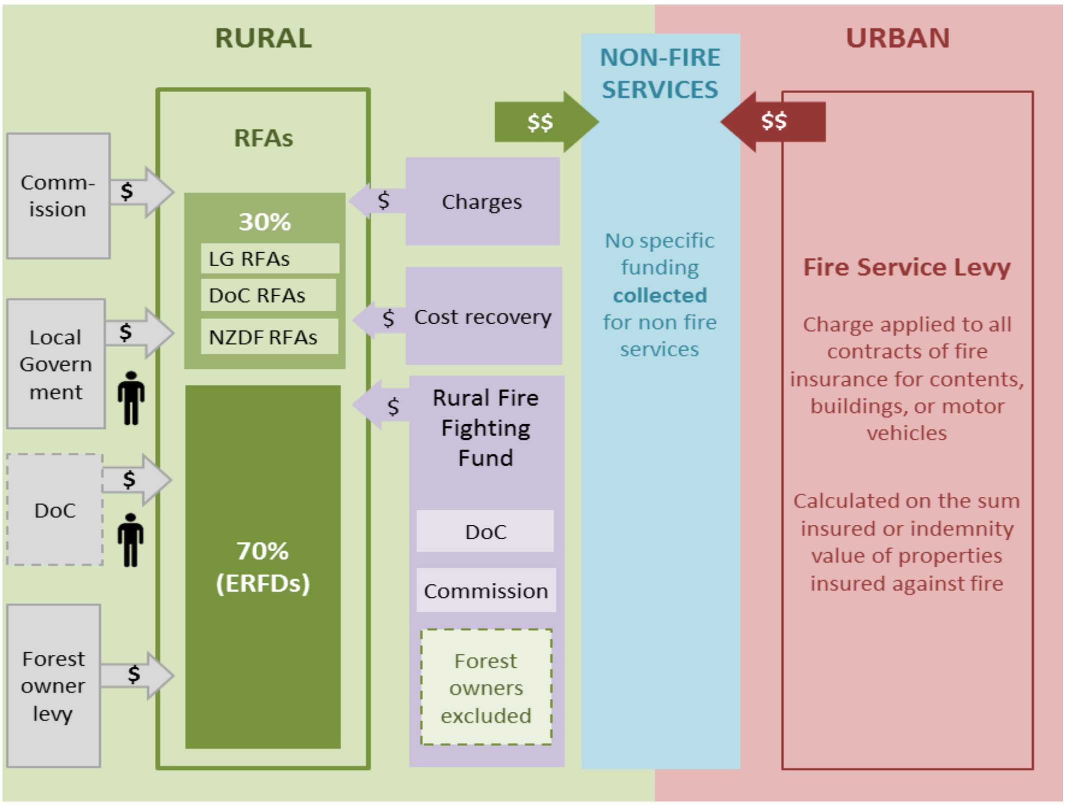
71. NZFS is currently funded through the fire service levy (the levy). This is a charge applied to all contracts of fire insurance covering New Zealand property and motor vehicle insurance. The levy is collected by insurance companies or brokers when customers obtain fire insurance for contents, buildings, or motor vehicles. Currently, the levy is calculated on the indemnity value of properties insured against fire or the sum insured, whichever is lesser. The indemnity value is fixed in the owner's declaration or a valuation certificate.

72. The funding arrangements for rural fire are complex. Figure 5 provides an overview of the current model for funding rural fire services. Funding is received from a number of sources, such as:

- property owners through local authority rates;
- commercial forest owners through levies;
- DoC (through their workforce and Rural Fire Fighting Fund contributions); and
- the Commission through grants (e.g. for fire appliances and equipment and Rural Fire Fighting Fund contributions).

73. This funding approach is even more complicated because it varies throughout the country. For example, local authority levies vary depending on the approaches of individual authorities.

Figure 5: Current income sources for the fire services



74. Note, NZDF does not seek cost recovery from NZFS or RFAs for support provided.

Fire service assets

75. NZFS holds more than $500 million in property, vehicles, plant and equipment, including over 800 appliances.

76. In terms of property, NZFS own the following:

- 79 career fire stations; and
- 360 volunteer stations.

77. Due to the diverse ownership of assets there is no complete asset register for RFAs or ERFDs.

Financial position

78. Analysis suggests that the status quo would lead to a funding gap of $360 million over the next ten years. This deficit is primarily due to depreciation expenses arising from implementation of NZFS's capital plan. NZFS is projected to have negative cash flows from the 2017/18 financial year as a result of the planned capital expenditure.

Problem definition

79. The Discussion Document described the following three funding problems:

- fire service levy revenue does not reflect the total risk of fire;
- fire service levy does not reflect the range of activities (mandated emergency services functions are increasing); and
- fire service levy can be confusing to calculate and difficult to forecast.

80. Further work refined the problems to include the combined funding picture of rural fire services and the fire service levy. This had led to the conclusion that the current funding sources do not adequately align costs:

- to the fire services' strategic planning and monitoring; and
- to the potential use of service type.

81. The insurance levy provisions are also out of date and open to interpretation.

82. If the current funding sources (depicted in Figure 5 above) for all fire services are not changed, the current funding base:

- will erode over time and become insufficient unless the fixed levy rate is increased to compensate;
- will continue to cause the balance of costs to fall on existing funding sources rather than all potential users sharing it;
- the increased costs of implementing a new fire services organisation will fall on existing funding sources rather than all potential users sharing it;
- will be subject to interpretation and legal challenge;[14] and
- will continue to be difficult to review in terms of performance and accountability.

[14] The Supreme Court and the Court of Appeal have stated that reform of the fire service levy calculation is necessary. In *New Zealand Fire Service Commission v Insurance Brokers Association of New Zealand Incorporated and Vero Insurance New Zealand Limited* (SC 57/2014) [2015] NZSC 59, the Supreme Court found that the correct interpretation of s48(6)(c) of the Fire Service Act 1975 requires that the levy is payable on the true indemnity value of the property. The sample policy provided insurance on terms more favourable than the indemnity value of the property. Section 48(7) does not exempt the excess of indemnity policy, except to the extent that it provides cover in excess of the true indemnity value. This better reflects the intention to set the levy to reflect the property owner's level of insurance cover, and an interpretive approach favouring greater universality of the levy, which is in the nature of a tax for a public service.

The Supreme Court also found that the levy should be computed on the basis that each of the eight port companies, which had obtained cover for "all insureds collectively" in relation to fire damage, had an insurance contract on which the levy was payable. This finding was based on a number of features of the policy, which distinguished this case.

83. The funding sources were logical when the primary activities were responses to fire incidents. However, fire services' activities have expanded, as discussed above. This trend in non-fire call responses means the fire services are responding to a larger number of incidents, even though the number of structure fires is declining. The scale and scope of this change implies a need to reconsider funding arrangements. Solely funding our fire services from a levy limited to fire insurance or having separate rural fire funding leaves gaps between those who pay for and those who potentially use the fire services.

84. Rural fire funding does not align to the potential use of the service because:

- all property owners benefit from rural fires being fought and put out – not just those who own crops or forests. All property owners currently pay through their rates for some rural fire services;
- the separate funding causes most rural people including farmers and foresters to have concerns about paying multiple times for their fire services;
- keeping the benefits and costs of rural fire separate is very difficult and arbitrary under the current state;
- there is likely underinvestment where revenue does not adequately meet service needs; and
- cost-recovery from the person who set the fire does not enable costs to align with all the beneficiaries of the fire being put out, especially if the setting of the fire was not negligent.

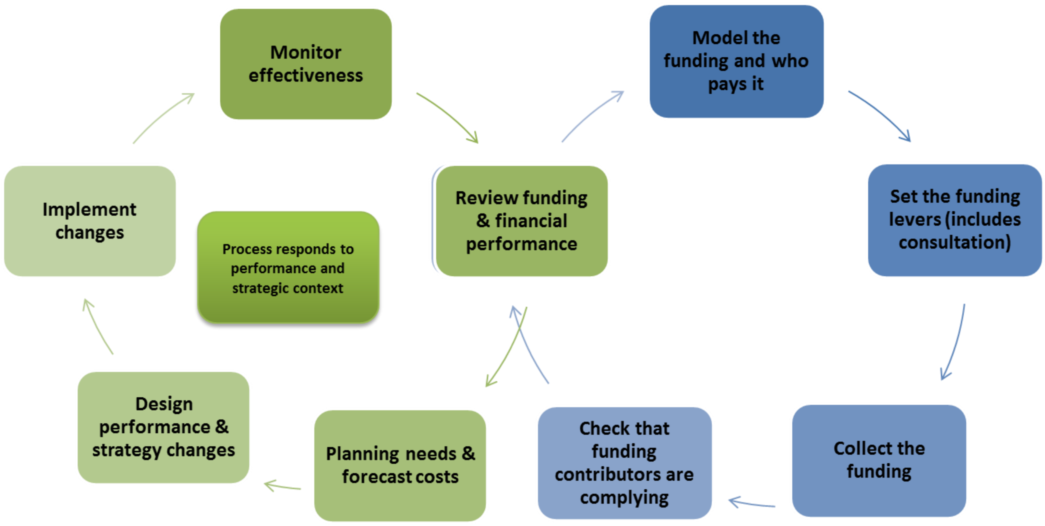
85. The current fire service levy means costs do not align to potential service use because:

- there is only one levy class, which means that government does not pay some of its fair share of costs for public good non-fire related work (e.g. medical call outs);
- the residential and non-residential levy sectors are cross subsidising these public good non-fire costs;
- there is an inability to set different fixed rates between the residential sector and non-residential sectors to reflect their different costs, which enables cross-subsidisation between the sectors to occur;
- within each funding class, costs are not well-matched to potential use for example:
    - in the non-residential sector some large organisations seek to reduce their insurance costs, which in turn legitimately reduces their fire services contribution;
    - in the non-residential sector some large public and private entities do not pay their fair share of costs that relate to property causing costs to fall on small-medium businesses; and
    - approximately 20% of motor vehicle users do not have insurance, which means a significant number of motor vehicle users do not pay for the potential fire services they receive.

86. In rural fire funding, funding sources are out-of-date because:
    - using cost-recovery makes it difficult to plan and forecast and does not reflect potential service use or beneficiaries of the service nor does it adequately fund the ‘readiness’ capability;
    - the largest and growing risk of rural fires is the urban-rural interface (urban property owners moving into rural areas) - cost recovery does not enable a coordinated focus across the fire services on this growing risk area;
    - the levy charged to forest owners was established when forest owners were the primary cause of forest fires, but very few forest fires are now caused by forest owners; and
    - the fire service levy is paying for more rural fire services than it did 30 years ago, causing funding inequities (whether perceived or real), which is not likely to improve.
87. The current fire service levy exemptions will not fit with the new fire services organisation. Many of the levy exemptions exist to remove funding inequities caused by having separate rural fire funding. Also, exemptions result in higher levies for those that are not exempt from paying.
88. The fire service insurance levy calculation is out-of-date. For example, the residential cap was last reviewed in 1992 when house prices were much lower than they are now.
89. The current levy calculation is open to interpretation – as indicated by the Supreme Court’s judgement.[15] The rural fire funding is also open to interpretation, with some RFAs and ERFDs having to negotiate to obtain funding from their funders. These arrangements vary substantially across the country.
90. The Fire Service Act does not adequately align the levy review cycle to the performance framework. As Figure 6 below shows, a contemporary funding approach would connect the levy setting cycle to the performance review cycle. Performance based planning and monitoring drives a positive and effective approach.

[15] SC 57/2014 [2015] NZSC59.

Figure 6: Funding review cycle is connected to the performance cycle



Objectives

91. The objectives are:

- optimal balance of the tax principles – set out in rank order:
  - sufficiency (base x rate)
  - simplicity
  - predictability
  - adaptability
  - non-distortionary (insurance market);
- funding charged to potential type of service use;
- cohesive funding system that supports effective strategic decisions; and
- clear legislation that is difficult to avoid.

92. The critical success factors are:

- minimises likelihood of avoidance;
- compliance burden on funders and insurance industry is minimised; and
- compliance burden on new fire services organisation is minimised.

Options

93. Early in the review process, before the Discussion Document was published, two funding options were discarded: a levy on property values, and general taxation [CAB Min (15) 15/19 refers].

Discarded options

Levy on property values

94. One alternative to an insurance-based fire levy could be local government collecting a levy on the improved value of property. Local government could collect this levy at the same time as it collects rates.

95. When compared to an insurance-based levy, this option does have several advantages:
    - providing a stable funding base;
    - avoiding distortions to the insurance market; and
    - avoiding administrative problems associated with an insurance levy (e.g. the timing of some insurance payments comes after the fire service levy is due, which exposes insurance companies to interest costs and penalties for late payment from the Commission).

96. Many Australian states have moved from insurance-based levies to a mix of property-based levies and state funding over the past 20 years. However, there is significant under-insurance and non-insurance in Australia. In New Zealand, rates of insurance are higher and 'free-riding' is less of a problem.

97. Further, there are many administrative and practical issues associated with a property levy that resulted in it being rejected as an option. The funding base for property is narrower than under the status quo. Contents and motor vehicles are not covered by rates. In commercial property, the contents can be more valuable than the buildings. If using local government valuations, it would make sense to align the types of properties where the levy is collected with those that are subject to rates. If so, there are many insured properties that are subject to the current levy, which would be exempt from a property value. Some examples are Crown property, churches and marae. This means a property funding model could shrink the funding base.

98. There would also be significant transitional costs. A new system for collection and administration would need to be set up. This would be complicated because local authorities construct and maintain their rating databases independently.

99. Local authorities are likely to oppose what the public may perceive as an increase in rates, when local authorities would have no influence on how the funding is spent. If local authorities did influence how the funding was spent, it would undermine the advantages of a centrally-managed organisation.

100. Local government has already been encouraged by central government to restrict its focus to its core activities. Collecting the fire service levy on behalf of the new organisation does not align with core activities for local government.

101. Therefore, the review concluded that a property-based levy should not be considered as an option. This is consistent with the Swain Report, which did not recommend any further work on this option, given its shortcomings.

General taxation

102. Another alternative to an insurance-based funding model would be to fund from general taxation. The level of funding for each year would be agreed in advance by Ministers and appropriated by Parliament through the annual Budget process. This is how most government departments and many Crown entities are funded.

103. When compared to an insurance-based levy, this option does have several advantages:

- it would ensure that all taxpayers are required to contribute;
- it would remove the confusion in legislation that has given rise to possible levy minimisation;
- it would be highly cost effective, as the Government would be able to use its existing tax revenue collection systems;
- it would be relatively stable and predictable; and
- funding decisions would be subject to Treasury scrutiny, potentially increasing the Commission's accountability and efficiency.

104. This option would require a large annual appropriation funded out of Crown revenues. Ministers have decided that the Government will not pursue further investigation into this option as part of this review process.

Insurance levy based on premiums

105. The discussion document on fire services reform considered two options for collecting the levy: the value of sum insured or the insurance premium.

106. The primary purported benefit of attaching the levy to insurance premiums was that the levy paid would better reflect the risk of fire.

107. However, following consultation it was determined that there are several problems with attaching a levy to premiums:

- premium values are highly volatile, and there has recently been a 10 per cent decline in the value of gross written premiums in the Australian market;
- as a result, the fire services' revenue would be vulnerable in 'softer' market conditions;
- premiums are affected by other factors besides risk like global financial markets, the cost of reinsurance and domestic competition; and
- premiums are also vulnerable to levy minimisation as they are affected by the excess level selected by the insured.

108. Given this, and the strong insurance sector support for the simplest possible option, the Department does not support attaching the levy on the value of the insurance premium.

Shortlisted options

Modified levy

109. Having discarded the above options, levy based funding is explored. To better align costs to potential use, the NLTF should contribute approximately $42-45 million each year for road incidents attended by the fire services (including rural fire services). There would be marginal cost impacts because the ability to charge a levy on motor vehicle insurance would be removed. The NLTF is a fairer funding source because about 20 per cent of motor vehicle owners do not carry insurance.

110. Under the status quo, the definition of residential property for the purposes of charging the fire service levy is based on section 2(1) and section 18 of the Earthquake Commission Act. This results in the same cap on residential levy payments for the Earthquake Commission (EQC) levy ($100,000) applying to the fire service levy. It is proposed that this link between the two Acts be removed, so that the new unified fire service organisation can set the cap on residential fire service levy separately from the EQC by way of regulation making powers in the new Act.

111. This would enable the levy cap to better reflect the specific circumstances raised by the fire service levy, and to reflect the fact that when the cap was first established it represented the 75^{th} percentile of housing insurance. Based on this, and analysis of existing housing values, it is proposed to raise the current cap to $300,000 for residential properties.

112. It is further proposed that the levy be extended from contracts of fire insurance to contracts of material damage, because:

- it makes it more difficult for levy payers to reduce their contributions by adopting split insurance policies; and
- it better reflects the fact that fire services are responding to a growing number of non-fire related incidents (e.g. work to protect housing from flooding).

113. It is further proposed that the levy rate should vary across residential and non-residential policy holders. Under the current universal levy rate, residential policy holders pay more than twice the costs associated with fires at residential properties. Allowing the levy rate to differ between residential and non-residential policy holders will better align costs to potential fire service use.

114. In addition to adjusting the levy to cover material damage and introducing different levy rates to cover residential and non-residential policy holders, two variations of a levy based funding option were explored: 'sums insured' or 'total assets insured'. Table 5 presents a comparison of these two options.

Mixed model adds a Crown contribution

115. Fire services deliver the '4Rs': risk reduction, readiness, response and recovery. The first two functions are largely public goods. Reduction focuses on matters such as public education and awareness. Everyone benefits from reduction efforts, and one individual's enjoyment of these benefits does not limit anyone else's. The same is true for the readiness to respond to fire emergencies around the country. Response has both public and private benefits.

116. Individuals benefit from responses, however the marginal costs of additional responses are generally small. The public also benefits through the reduction in the numbers of long-term injuries and other costs to the public health system. Recovery largely involves investigation and research – both of which are primarily public goods.

117. Fire services are increasingly responding to non-fire incidents. This reflects the benefits of having a capability on standby. Non-fire activities such as disaster relief and responding to motor vehicle accidents are also a public good, because they are available to everyone and help to engender a feeling of security within the whole community.

118. The public good component provided by the fire services has been valued at $30 million.[16] This is attached to the readiness and response costs for non-fire incidents that:
    - cannot be easily apportioned to a third-party stakeholder; and/or
    - where attaching the cost to a third-party stakeholder risks creating a perverse incentive particularly if that stakeholder is a member of the public and not an emergency services provider.

[16] These costs are based on the MartinJenkins report (which estimates total non-fire costs – excluding motor vehicles - to be approximately $62 million in 2012/13) and incident reporting data provided by the fire service, which includes activities associated with medical emergencies, services with Police and the public, water and smoke issues, aircraft standby, natural disaster response and animal rescue.

Assessment of options

119. The funding options have been analysed as follows:

- the basis on which the funding is derived ('sum insured' and 'total assets insured'), Table 5; and
- comparing the addition of funding from the following source (see, Table 6):
  - no additional funding (status quo) where funding comes largely from insurance levies;
  - a new road user charge collected through the NLTF (enhanced status quo);
  - the road user charge and a Crown contribution (mixed funding model).

120. 'Total assets' fails when measured against the critical success factor 'the compliance burden on funders and the insurance industry is minimised'. This is because this option would require many insureds to get a valuation on their properties, plant and equipment. For the most part insureds do not tend to get valuations on their contents, plant and equipment. Making a valuation compulsory would not be a viable option due to the costs of doing so (up to $15,000).

121. Further, there are risks involved with pursuing a levy based on 'total assets', including very large cost increases for some entities that already undergo significant expense to minimise their fire risk (e.g. hospitals). Advice from the District Health Board (DHB) insurance collective and Kiwirail indicates that in some cases the levy may be larger than the insurance premium. The Department considered various options for capping or moderating costs for affected entities. For these reasons this option was discarded.

122. Analysis indicates that the mixed funding model calculated on the basis of 'sums insured' is the preferred option because it:

- more closely aligns the costs to potential type of service use;
- more closely aligns with the tax design principles.

123. In the design phase, it will be important to validate the following assumptions that the:

- reporting requirements of the NLTF and government effectively balance the need for monitoring information against the compliance costs on the new fire services organisation;
- integration of the three funding streams enables a stable and predictable flow of revenue to the new fire services organisation; and
- costing against funding classes will be the appropriate method of reporting that the new fire services organisation will use.

Table 5 Assessment of 'sums insured' and 'total assets insured' against the investment objectives and critical success factors

	Sums Insured with new legal definition and indemnity value removed	Total Assets Insured with replacement value
Definition	'Sums insured' means the maximum amount an insurer will pay in the event of a property being damaged Indemnity value is difficult to calculate at the time the levy calculated (i.e. at the time that the insurance policy is purchased) because it refers to the amount paid for the assets at the time of a claim. It is simpler to separate this insurance product choice from the levy calculation.	'Total assets insurance' means the replacement value of all assets covered for damage under an insurance policy. Replacement value best aligns costs to potential type of service use. Book value means that the age of the entities and their assets would distort markets and not align costs to potential type of service use because new entities or entities with new assets would pay more.
Investment objectives	**Investment objectives**	**Investment objectives**

Optimal balance of the tax principles – set out in rank order:
• sufficiency (base x rate)
• simplicity
• predictability
• adaptability
• non-distortionary (insurance market)
	Partially met - overall
	• partially met – smaller base charged higher levy rate, which is less sustainable over time
	• substantially met – needs to be defined in the legislation to minimise ambiguity about how it is interpreted and applied
	• partially met – the amount of sums insured might change depending on insurance costs (so as premiums go up, some entities might reduce the amount of cover); initially there might be some uncertainty while new definition beds in but likely to be easier to implement
	• not applicable
	• partially met – some entities use 'sums insured' to minimise their insurance costs and/or their fire services levy
		Partially met - overall
		• substantially met – larger base charged lower levy rate
		• partially met – while the legal definition of 'total assets insure' based on replacement value will have some compliance costs it is simple for the insurance industry but more difficult for levy payers who will be required to obtain a valuation of their assets insured.
		• substantially met – the amount of total assets insured might change depending on insurance costs (so as premiums go up, some entities might reduce the amount of cover); total assets is more predictable because more properties would be assessable for levies so the base is larger; initially there might be some uncertainty while the new concepts 'bed in'
		• not applicable
		• not met – we prevent some minimising cover distortions but we may cause:
		  ○ more self-insurance with some larger entities;
		  ○ increased number of compulsory valuations (cost to levy payers of $700-15,000 each);
		  ○ if shift to book value it distorts start up and capital markets;
		  ○ indemnity value is too difficult

Funding charged to potential type of service use	**Partially met** – new legal definition helps spread more of the levy within the class, but minimising cover choices means that some pay less than they should	**Partially met** – there is a larger base because using 'total assets insured' so better spread of the levy within the class but some entitles may choose to reduce their insurances costs and/or levy liability by either choosing self-insurance or reducing their 'total assets insured'. Small to medium business may have more of a 'free-ride' because the larger asset base means they might pay a lot less
Cohesive funding system that supports effective strategic decisions	**Partially met** – a few more entities are charged a levy, which raises awareness of fire and emergency risks and reduction activities (eg sprinklers and good land management practices)	**Substantially met** – a lot more are charged a levy, and the levy is higher for entities with large assets, which raises awareness of fire and emergency risk and reduction activities
Clear legislation that is difficult to avoid	**Partially met** – new definition of 'sums insured' adds clarity and transparency, but continues to enable first loss structures (ie using the single largest loss against a portfolio rather than the total assets in the portfolio covered by the insurance)	**Substantially met** – once implemented 'total assets' with 'replacement value' definition is clear and makes it harder to avoid through using a first loss structure
Critical Success Factors	**Critical Success Factors**	**Critical Success Factors**
Encourages compliance with the levy	Not applicable	Not applicable
Compliance burden on funders and insurance industry is minimised	**Partially met** – over time the insurance industry will need to assist the new organisation more to ensure entities are complying with the fire services levy	**Not met**– there is an initial compliance burden on the insurance industry while it adjusts to the new definitions and charging the fire services levy on "total assets" with replacement value. But over time it is easier to comply with because total assets are more stable. Levy payers have high compliance costs.
Compliance burden on new organisation is minimised	**Partially met** – 'sums insured' has a smaller base so will require increased forecasting and modelling efforts	**Substantially met** – total assets is a larger base so tends to be more predictable and easier to work with over time
Overall assessment	**Partially met**	**Not met**

Table 6 Assessment of the funding options: status quo, enhanced status quo, and the mixed funding model based on sums insured

	Status quo	Enhanced Status quo (sums insured with levy on self-insurance)	Mixed Funding Model (sums insured with levy on self-insurance)
Description	*Fire service levy:* • on contracts of insurance against fire • calculated on lower of sums insured or indemnity value • same levy rate on residential and non –residential • cap on residential at $100,000 (linked to EQC Act) • no cap on non-residential • fixed rate for residential and non-residential. • exemptions in Schedule 3 to Fire Service Act • provisions for penalty and surcharge for late and non-payment • rate of levy reviewed at any time (and must be reviewed annually) *Motor vehicles* • levy on motor vehicle insurance *Rural Funding* • various funding streams (levy, rates, cost recovery etc) for RFAs under the Forest and Rural Fires Act	*New fire services levy* • on contracts of insurance against material damage • calculated on sums insured or total assets – depending on option • applies different fixed rates to residential and non–residential • increases cap on residential to $300,000 (removing link to EQC Act, and providing flexibility for the cap to adjust) • retains no cap on non-residential • retains fixed rate for residential and non-residential • removes exemptions from legislation, but allow power to make regulations to exempt classes of property • new information and audit regulations • anti-avoidance provisions and/or penalty and surcharge provisions • levy can be reviewed at least every three years (allowing flexibility to respond to immediate issues as they arise) *Motor vehicles* • road users charged more broadly under the NLTF *Rural funding* • separate rural funding streams removed	*New fire services levy* • same as Enhanced Status Quo *Motor vehicles* • same as Enhanced Status Quo *Rural funding* • same as Enhanced Status Quo ***Crown appropriation added into the model*** • public good component, and/or • levy support for all government entities affected by 'total assets insured'
Investment objectives	**Status quo**	**Enhanced Status quo (sum insured with levy on self-insurance)**	**Mixed Funding Model (sum insured with levy on self-insurance)**
Optimal balance of the tax principles – set out in rank order:	**Not met** - overall	**Substantially met** - overall	**Fully met** - overall
• sufficiency (base x rate)	• partially met – non-residential levy base is eroding, although recent Supreme Court case helps to mitigate this. There is little growth in the residential levy base because it is linked to a cap in the EQC legislation	• substantially met – broader funding base improves sufficiency and potentially reduces a little bit of minimisation	• fully met – broader funding base with the additional government funding improves sufficiency because more sustainable and minimises any levy increases
• simplicity	• partially met – one principal funding source is easier to administer for the current fire service organisation, but this is offset by complexity of funding sources in rural fire	• substantially met – new funding class for road users means that new organisation needs to collect information and increase accounting practices across funding classes, offset by increased simplicity of removal of rural fire funding sources and removal of exemptions	• partially met – additional funding source from government for public good non-fire means that new organisation needs to collect information and increase accounting process for allocation across three funding classes, offset by increased simplicity of removal of rural fire funding sources and removal of exemptions
• predictability	• not met – reliance on 'sums insured' or 'indemnity value' combined with lack of information and no clear definition means can be difficult to forecast and know what income will be	• substantially met – small changes to the status quo and improved information collection means that it is easier to forecast income	• fully met – broader funding base is more stable and easier to forecast
• adaptability	• partially met – able to adjust the levy upwards and downwards and rate of levy reviewed at any time (and must be reviewed annually), but smaller base means not able to distribute costs across classes; rural fire is not very adaptable and fully dependent on affordability	• substantially met – adjustable levy rate and funding charges, different fixed rates for residential and non-residential, more funding sources gives increased flexibility	• fully met – the most funding sources gives the most adaptability
• non-distortionary	• partially met – has least impact on insurance industry but enables continued distortion on the levy	• substantially met – insurance market has least distortion	• fully met – insurance market has least distortion and government contribution for public good non-fire reduces this distortion further
Funding charged to potential use of service type	**Not met** – small funding base and insurance minimisation means funding not charged to potential service use; in rural fire reliance on DOC and forest owner contributions means funding is not charged to potential service use	**Partially met** – assessment on material damage polices means funding better matches potential service use. Without the Crown contribution the wider levy paying population subsidises the costs of the public good service	**Substantially met** – the most funding sources means funding is better matched to potential service use

	Status quo	Enhanced Status quo (sums insured with levy on self-insurance)	Mixed Funding Model (sums insured with levy on self-insurance)
Cohesive funding system that supports effective strategic decisions	**Not met** – across the fire services there the connection of the funding with the strategic direction is not transparent with options not considered leading to reduced ability to make effective strategic directions	**Fully met** – new funding model is strongly and transparently linked to the strategic direction and there is improved information and options to make strategic decisions	**Fully met** – new funding model is strongly and transparently linked to the strategic direction and there is improved information and options to make strategic decisions
Clear legislation that is difficult to avoid	**Not met** – substantial legal challenges and Supreme Court signals levy should be reviewed, other legal cases in train; in rural fire the legislation is ambiguous leading to multiple differences across the country in how funding is calculated and charged	**Substantially met** – new legal definitions and terms improve clarity and avoidance. Perfect compliance not feasible	**Substantially met** – new legal definitions and terms improve clarity and avoidance. Perfect compliance not feasible
Overall assessment	**Not met**	**Substantially met**	**Substantially – fully met**
Minimises likelihood of avoidance	**Not met** – no low level anti-avoidance mechanisms and difficult to approach organisations directly; does not address first loss policies	**Partially met** – modernised anti-avoidance mechanisms and enhanced ability to collect on self-insurance arrangements improve avoidance	**Partially met** – modernised anti-avoidance mechanisms and enhanced ability to collect on self-insurance arrangements improve avoidance
Compliance burden on funders and insurance industry is minimised	**Partially met** – no change in this system but insurance companies have to create information in some circumstances and also respond or bring legal challenges	**Partially met** – initial compliance burden with levy changes and greater information compliance for insurance industry but stabilises over time and is easy to administer over the long term	**Partially met** – initial compliance burden with levy changes and greater information compliance for insurance industry but stabilises over time and is easy to administer over the long term
Compliance burden on new organisation is minimised	**Partially met** – difficult to obtain information needed so compliance burden is high, with legal challenges creating further inefficiencies; rural fire authorities spend a lot of time negotiating funding	**Substantially met** – initial compliance burden setting up new system and improving information that is recorded and establishing new allocation systems but over time new system is easy to administer and manage	**Partially met** - initial compliance burden setting up new system and improving information that is recorded and establishing new allocation systems. There will be additional compliance with three different funding sources but over time as the new system beds in it will be simple to administer and manage.
Overall assessment	**Not met**	**Partially met**	**Partially met**

Impact analysis

124. If the government agrees to the proposed reforms a detailed design phase will follow. This will involve further work around setting the levy rate. Therefore, there will be separate Cabinet processes (supported by RISs where necessary), which will detail the effects of the changes on different classes of levy payers.

125. The current funding arrangements result in some classes of levy payers subsidising the cost of others' potential use of fire services

Table 7: Impact of mixed funding model on stakeholders

Organisation type	Advantaged	Disadvantaged
Residential levy payers (approximately 1.54 million[17]) **Will depend on extent of Crown contribution for public good**	• Those currently contributing to rural fire through rates would pay less. *If Crown contribution is $30 million* • Levy rate of 3.8c per $100, capped at $300,000[18]. • Those insured for less than $200,000 (approximately 820,000 households) will pay less than under the status quo. *If Crown contribution is $0* • Levy rate of 4.8c per $100, capped at $300,000. • Those insured for less than $158,333.33 will pay less than under the status quo (approx. 590,000 households).	*If Crown contribution is $30 million* • Levy rate of 3.8c per $100, capped at $300,000. • Houses insured for more than $200,000 (approximately 720,000 households) will pay more than under the status quo up to $38 per annum. *If Crown contribution is $0* • Levy rate of 4.8c per $100, capped at $300,000. • Those insured for more than $158,333.33 (approximately 950,000 households) would pay more, up to $68. • Without a Crown contribution for the public good, all levy payers will continue to cross-subsidise non-fire costs. These costs are increasing, although the marginal cost of providing these services is not considered significant.

[17] Based on data from CoreLogic.

[18] Based on KPMG modelling using CoreLogic housing valuations as a proxy for sum insured in the residential sector.

Organisation type	Advantaged	Disadvantaged
Private entities (406,698[19] non-residential properties in New Zealand)	• Large entities that are able to utilise first loss and other cost minimising insurance arrangements will be subsidised by smaller and non-minimising businesses.	• Small-to-medium entities are subsidising larger public and private entities that are entering into insurance cost reduction schemes. The subsidy is estimated to be worth $27 million for public and state service entities. It is not known what the equivalent is for private entities. • Large entities with a low sum insured on contracts of fire, and a higher sum insured for all contracts of material damage (eg the Ports collective) will face increases in their levy payments. • Entities that utilise self-insurance to reduce their insurance costs.
Public service and state service entities (125 & 2435 School Boards of Trustees)	• Public and state service entities that minimise insurance costs through the utilisation of first loss contracts (eg Ministry of Education, Department of Corrections).	• Public and state service entities that have a low sum insured on contracts of fire, and a higher sum insured for all contracts of material damage. The increase in costs has been estimated at $10.00 million (note this figure does not consider the expansion of the levy base as a result of shifting the levy to contracts on material damage– the levy rate would likely fall in line with the expansion of the funding base and so $10.00 million should be treated as a high end estimate). [redacted] ▪ [redacted] ▪ [redacted] • Public and state service entities that utilise self-insurance to reduce their insurance costs (eg Police). The details of these costs will be worked through for the next Cabinet paper.
Local government entities (78 in total)	• The costs impacts for individual councils will depend on their existing contributions to rural fire brigades and their insurance arrangements. Those local government entities that contributed large amounts currently may pay less, while local government entities that make small contributions to rural fire will likely pay more. Likewise, local government entities with higher insurance limits will contribute more, and vice versa.	

section 9(2)(ba) and section 9(2)(i) of the Official Information Act 1982

[19] Based on data from CoreLogic.

Organisation type	Advantaged	Disadvantaged
Motor vehicle owners (3.26 million holders of car licences)	• In the long term those who pay a levy on their motor vehicles will likely pay marginally less due to the extension of the funding base. • Those who own a motor vehicle but who drive less.	• In the long term the 20% of motor vehicle owners who do not have insurance on their motor vehicles will pay more through petrol excise duties and road user charges. • Those who drive longer distances.

Part 3

Consultation

Government

126. The Commission, the Treasury, State Services Commission, New Zealand Police, the Departments of Conservation, and Corrections, National Ambulance Sector Office, NZDF, Accident Compensation Corporation, Canterbury Earthquake Recovery Authority, Housing New Zealand Corporation, WorkSafe New Zealand, Maritime New Zealand, Ministries of Primary Industries, Culture and Heritage, Defence, Health, Business, Innovation and Employment, Transport, Environment, Education, and Civil Defence and Emergency Management and the Department of Internal Affairs' Local Government and Community and Voluntary Sector portfolios were all formally consulted on aspects of the review. The Department of Prime Minister and Cabinet has also been involved.

127. A Ministerial group has also been providing direction to officials throughout the review process. This group is comprised of the Ministers of: Finance, Internal Affairs, Local Government, Primary Industries, Civil Defence, Police, Conservation, Community and Voluntary Sector; and Associate Ministers of: Local Government, Primary Industries and Health.

Stakeholders

128. The review took a high-engagement approach with stakeholders. Officials began consulting with various non-government stakeholders including rural interest groups, unions, business and insurance sector groups, emergency sector agencies and workforce representatives at the end of 2014.[20]

129. This early and on-going engagement with a wide range of stakeholder groups enabled officials to confirm the nature and the size of the problems facing fire services and to identify potential solutions. These were detailed in the Discussion Document.[21]

130. The Discussion Document presented options to resolve issues with governance and support of fire services, and funding sources. Consultation closed on 10 July 2015 and 235 written submissions were received. In addition, officials gathered feedback at 35 meetings with stakeholders around New Zealand. The Minister of Internal Affairs attended many of these stakeholder meetings and the Associate Minister of Local Government also attended some.

131. As officials analysed the feedback, there was continuing engagement (through workshops and seminars) with key stakeholder groups such as the United Fire Brigades Association, the chairs of the ERFDs, PRFOs, Local Government New Zealand, forestry interests, and the Rural Fire Committee of the Commission.

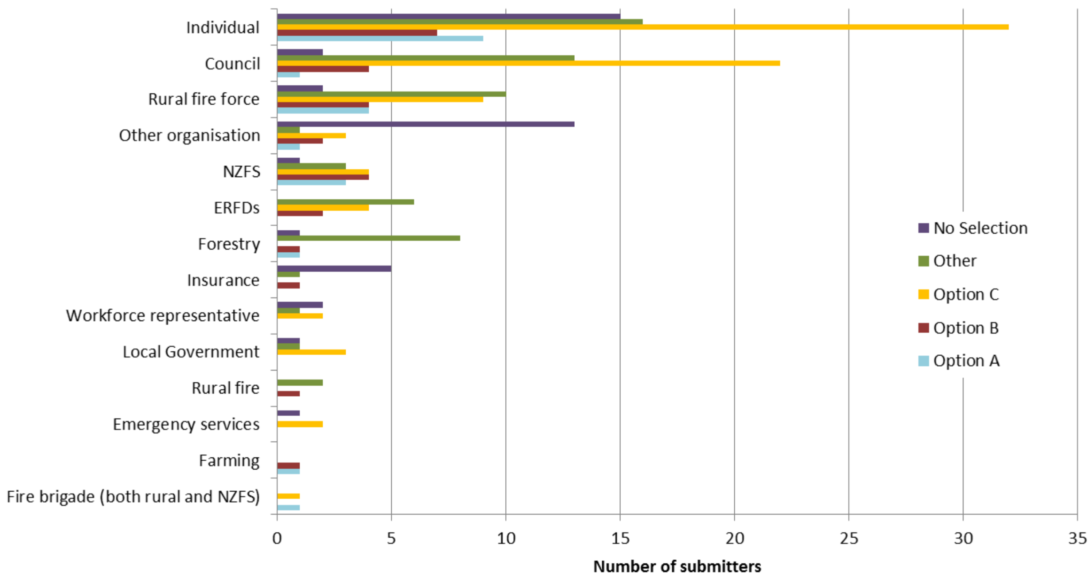
132. Through this stakeholder engagement key themes emerged: volunteers, community, and effective service delivery. These guided refinement and design of options.

[20] [EGI Min (14) 18/8] refers.

[21] [CAB Min (15) 15/19] refers.

133. The submissions and other stakeholder engagement demonstrated support for change (with over fifty per cent of submissions supporting a change in the way that the fire services operate and are structured). Figure 7 shows the range of support for the governance and support options that were presented in the Discussion Document.

Figure 7: Submitters' support of governance and support option by organisation type



134. The category "Other" describes submitters that mixed elements of the options together.

135. Those that selected Option C Integrated Fire Services included 21 of the 42 local authorities that made submissions and four of the 11 ERFDs, as well as the ERFD Chairs' Group. Two of the three emergency services organisations also selected this option. The Professional Firefighters Union and the New Zealand Executive Fire Officers Society also supported Option C, as did nine of the rural fire forces.

136. The next most supported option was an 'other' option with 62 submitters. Fourteen of the local authorities selected this option with five seeking a mix of Option A Enhanced Status Quo and Option B Coordinated Fire Services and five seeking a mix of Option B Coordinated Fire Services and Option C Integrated Fire Services. The six ERFDs who selected 'other' did so because they were interested in a bigger Option A (one ERFD), a mix of option B Coordinated Fire Services and Option C Integrated Fire Services (three ERFDs) or they thought that any change should be guided by outcomes or principles such as the involvement of the local community (two ERFDs).

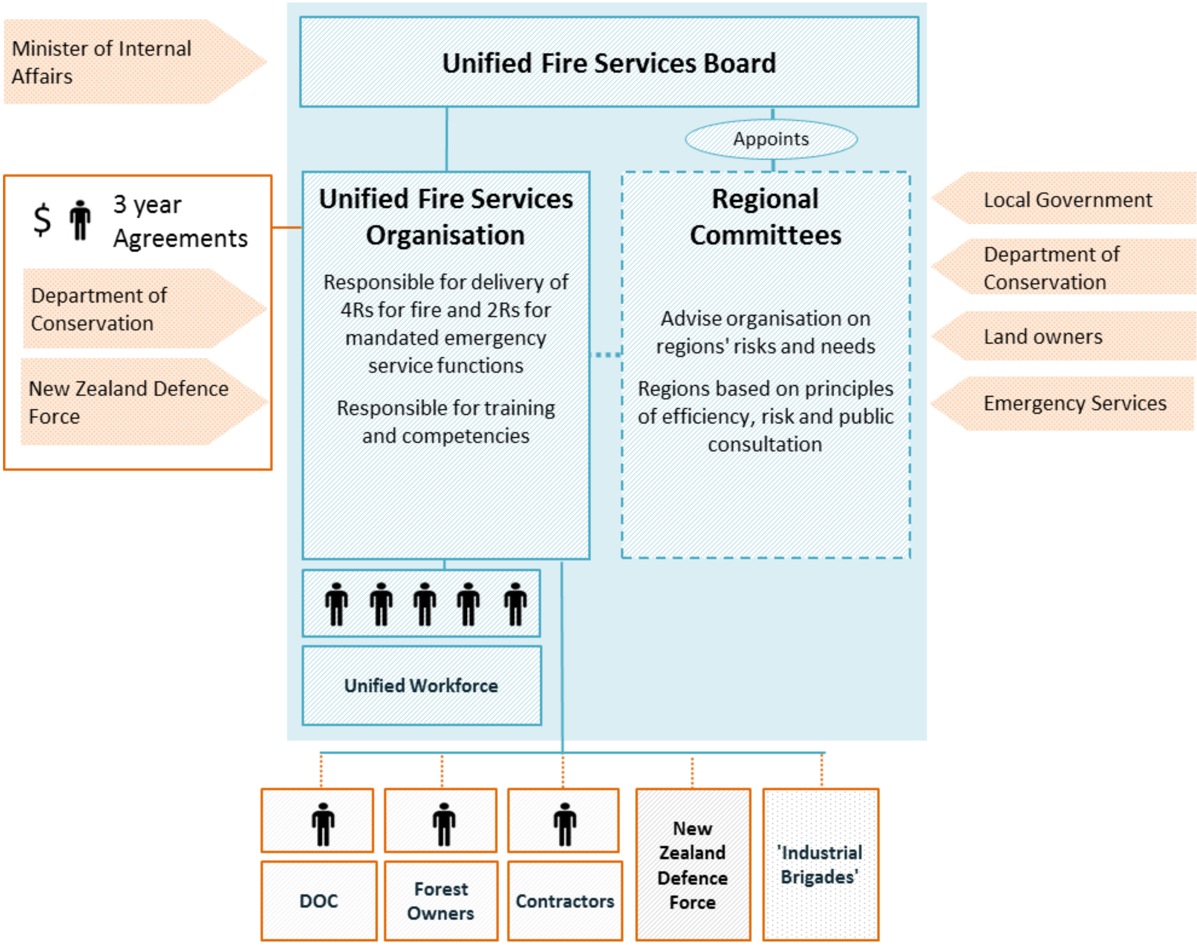
137. The option of a unified fire service with strong regional influence was developed in direct response to stakeholder feedback during and after the consultation on the importance of community engagement and local influence. This option has also been tested with groups of stakeholders. The reaction has been largely positive.

Conclusions and recommendations

Recommended option: Governance and support

138. The recommended option is to unify the separate fire services into a new fit for purpose organisation, summarised in Figure 8 below.

Figure 8: Summary of the preferred option: Unified Fire Service with Regional Influence



139. The new Board would provide governance and accountability of the fire services organisation. The Crown Entities Act 2004 would prevail, unless there were specific provisions in the new fire services legislation.

140. The purpose of the new organisation would be to provide national fire and mandated emergency service functions to protect and preserve life, and prevent or limit damage to property, land and the environment. It would:

- continue to have the lead and assist functions previously agreed by Cabinet [CAB Min (13) 30/6 refers] with the following amendments:
  - it must prepare for and deliver the Urban Search and Rescue function as a lead function;
  - it has the new assist function of promoting the safe handling, signage, labelling, storage and transportation of hazardous substances to enable it to improve readiness, response and safety;
- have the power to collect levy and charge for services;

- have relevant fire control powers and functions vested in it that are currently vested in the Commission or RFAs, and named roles within the fire services; and
- have the ability to delegate (or authorise other parties to carry out) the organisation's powers and functions as appropriate.

141. The Board would be required to establish regional committees (committees). The purpose of the committees would be to provide strong regional influence in the assessment of regional risks and needs (urban and rural) and the new organisation's planning and delivery of fire and mandated emergency services at regional and national level.

142. The committees would have the following functions:
   - provide a strong voice that reflects the needs of regional stakeholders;
   - provide advice to the new organisation at a regional and national level;
   - provide advice on the new organisation's national strategy and plan to ensure that regional interests are adequately considered by the new organisation;
   - contribute to the development and finalisation of the regional plan with the new organisation to help ensure that regional activity is most effectively targeted towards regional priorities, risks and needs including fire permitting and fire season status;
   - provide regular feedback and guidance on the new organisation's progress against its regional planning; and
   - provide a a strong voice for the unified workforce, particularly fire services volunteer communities and their unique interests.

143. The Board would develop operating principles to guide how the committees operate and to guide the interactions between the committees and the new organisation. These principles need to effectively balance the role of the:
   - Board, in setting national direction and the parameters within which committees operate; and
   - committees, in ensuring the regional work programme is appropriately targeted to local risks and needs and that the new organisation reflects stakeholder interests.

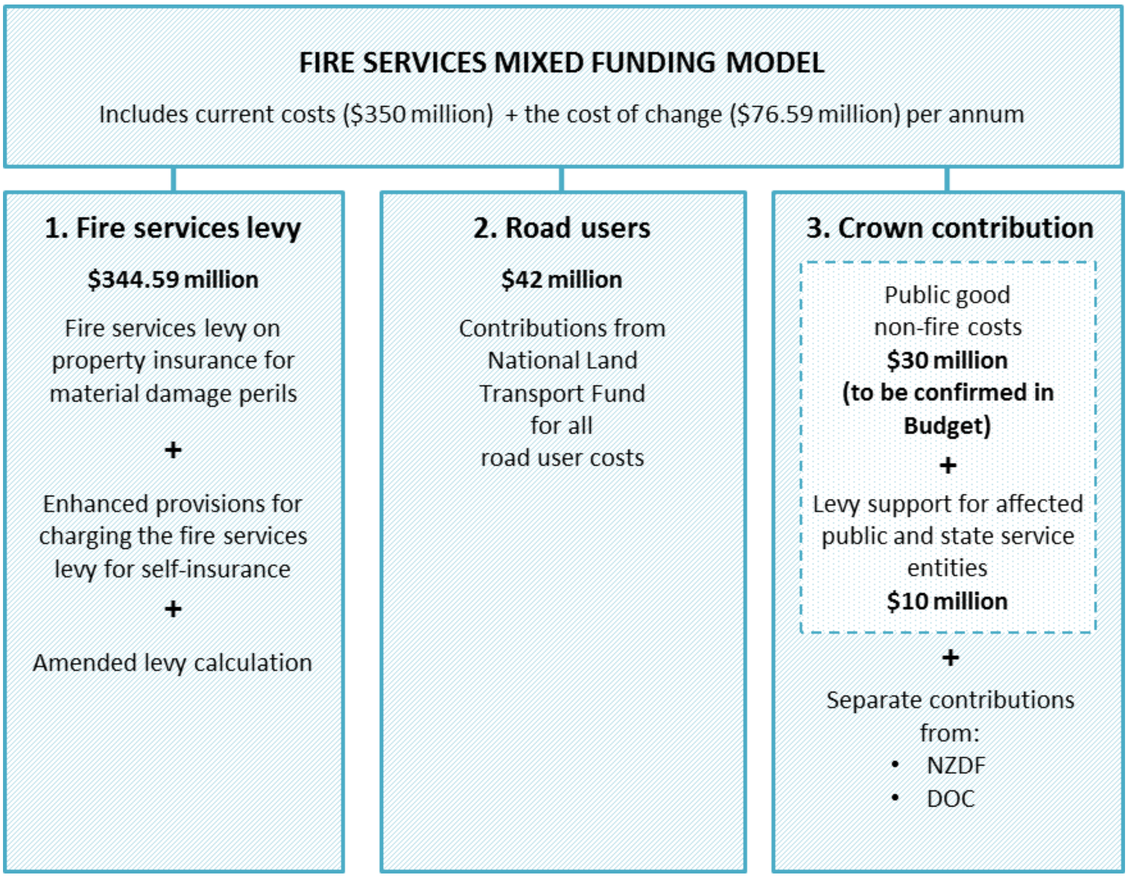
Recommended option: Funding

Mixed Model Fire Funding Framework (with sums insured)

144. As described above in the Funding Options section, the model changes from a levy framework to a funding framework. It brings in a new funding class for road users and the Crown, and levies self-insurers. This is summarised in Figure 9 below.

145. Crown funding is for the contribution from government agencies that own property and non-fire incidents that are not related to property ownership or road users.

Figure 9 Summary of proposed mixed funding model



Implementation plan

147. This project goes beyond regulatory reform. It recommends sector reform, including significant cultural change. For these reasons, considerable thought has already been given to implementation and transition. The roadmap indicating expected implementation phases is included as Figure 10 below.

148. Expectation has been raised among stakeholders and loss of stakeholder support has been identified as a considerable risk. Therefore, lessons have been taken from other organisations and government agencies that have experienced large-scale change and the previous efforts at reform of fire services.

149. Among other matters, the Minister will prepare a Letter of Expectations to the Commission outlining his expectations regarding the transition (i.e. governance, process, reporting and monitoring of progress). The performance of the new organisation will be monitored by DIA's Crown Entity Monitoring function, reporting to the Minister. The Minister will continue to meet with the Fire Services Review Ministers to seek advice on relevant issues such as any remaining policy or legislative issues, and transition progress.

Funding

150. It is proposed to move from an annual review to a review of the levy at least every three years – this will allow for flexibility in extraordinary circumstances. A greater period between review cycles will necessitate a more in-depth and substantial review process and will be a significant piece of work for the DIA monitoring team over a period of approximately nine to twelve months. A robust process of review (incorporating best practice) will be established and this is likely to require additional external expert advice to test the planning and assumptions and then model the required funding.

151. The review process will also need to incorporate increased consultation with affected parties and funders where relevant (e.g. the Treasury, Ministry of Transport, insurance industry, the public as required) to make transparent the rationale behind the proposed funding levels.

152. To support an enhanced review process, significantly more detail (greater than the status quo) will be required by way of a business plan underpinning expenditure. A forecast of planned operations and associated expenses for the coming three years (e.g. fire response times, CAPEX, training, investment in fire reduction, non-fire emergencies) and clear assumptions behind the forecasts (to ensure transparency) will be required.

153. The results of this business planning would then be modelled to determine the required inputs for the different funding sources (e.g. levy, appropriation and transport funding). This would then be put into the appropriate funding cycles for confirmation by Cabinet (i.e. the Budget process for appropriations, RIS and Cabinet paper for changes to the levy etc).

Transition timeline and roadmap

154. To manage the scale and complexity of the transition a multi-year Transition Programme Roadmap will be developed to support the preferred option and provide confidence in the implementation plan deliverables and timeframes.

155. It should be noted that while the transition programme is expected to span 3-4 years, some activities (such as asset optimisation) might extend beyond this, depending on the approach taken and availability of funding. The benefits of the reform are expected to be embedded and therefore realised over a longer duration.

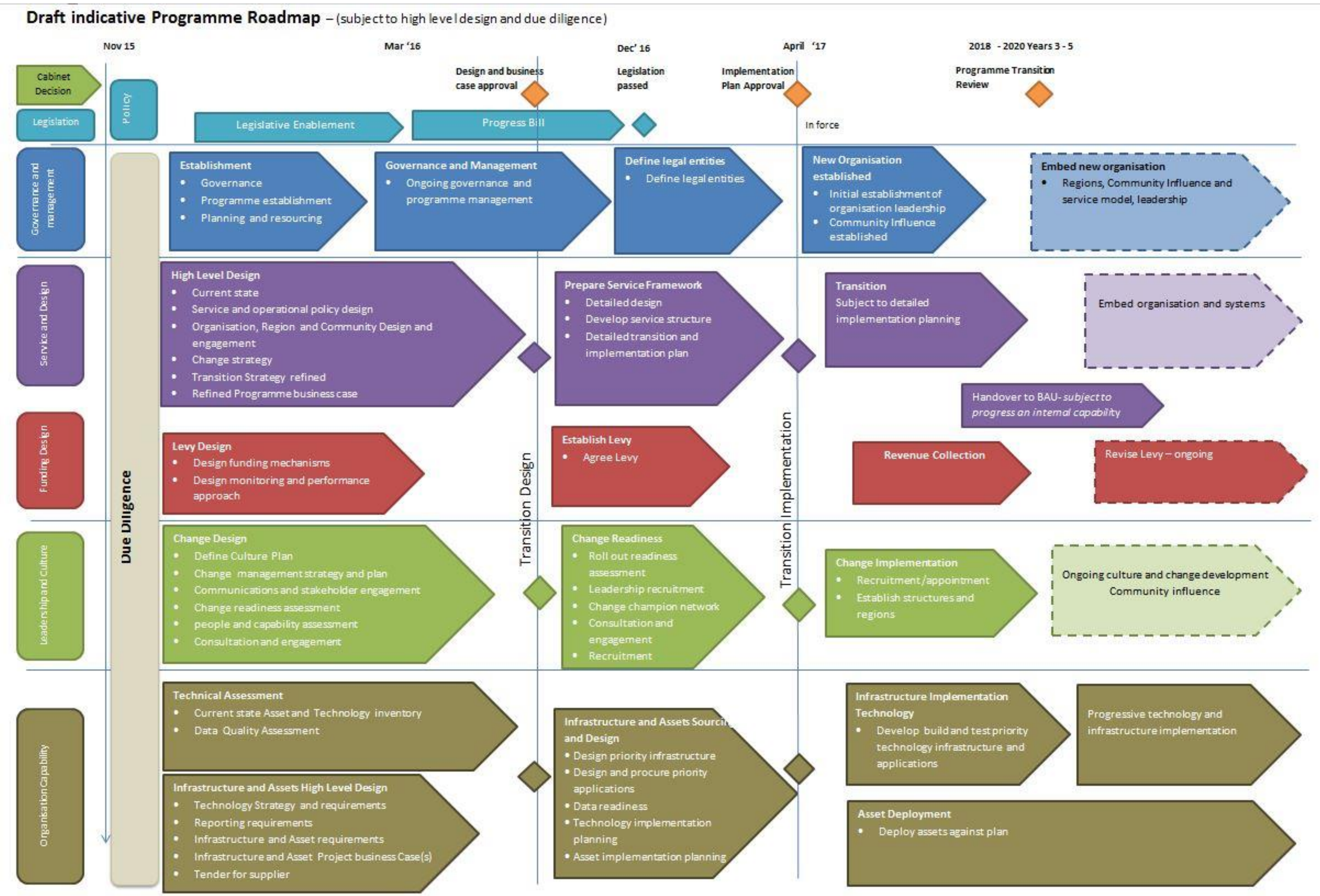
156. See Figure 10 for an initial view of the key work streams, overall indicative phasing of activities, and outputs expected at the end of each phase.

Further consideration

157. Further consideration of these matters by Cabinet and Parliament is planned as follows (subject to Parliamentary process):

Milestone	Timeframe
Submit drafting instructions to PCO	Mid-November 2015
Bill drafted	November 2015-March 2016
Cabinet paper 2 – detail regarding penalties, levy, etc	February 2016
Bill of rights vet/prepare for introduction	March 2016
Bill introduced	April 2016
Bill first reading	April 2016
Bill reported back from Select Committee	October 2016
Final House stages	October – December 2016
Enact Legislation	December 2016
New fire services organisation commences	April 2017

Figure 10:


Draft indicative Programme Roadmap – (subject to high level design and due diligence)
Nov 15
Mar '16
Dec' 16
April '17
2018 - 2020 Years 3 - 5
Cabinet Decision
Legislation
Policy
Design and business case approval
Legislation passed
Implementation Plan Approval
Programme Transition Review
Legislative Enablement
Progress Bill
In force
Governance and management
Service and Design
Funding Design
Leadership and Culture
Organisation Capability
Due Diligence
Transition Design
Transition Implementation
Establishment
• Governance
• Programme establishment
• Planning and resourcing
Governance and Management
• Ongoing governance and programme management
Define legal entities
• Define legal entities
New Organisation established
• Initial establishment of organisation leadership
• Community Influence established
Embed new organisation
• Regions, Community Influence and service model, leadership
High Level Design
• Current state
• Service and operational policy design
• Organisation, Region and Community Design and engagement
• Change strategy
• Transition Strategy refined
• Refined Programme business case
Prepare Service Framework
• Detailed design
• Develop service structure
• Detailed transition and implementation plan
Transition
Subject to detailed implementation planning
Embed organisation and systems
Handover to BAU- subject to progress an internal capability
Levy Design
• Design funding mechanisms
• Design monitoring and performance approach
Establish Levy
• Agree Levy
Revenue Collection
Revise Levy – ongoing
Change Design
• Define Culture Plan
• Change management strategy and plan
• Communications and stakeholder engagement
• Change readiness assessment
• people and capability assessment
• Consultation and engagement
Change Readiness
• Roll out readiness assessment
• Leadership recruitment
• Change champion network
• Consultation and engagement
• Recruitment
Change Implementation
• Recruitment/appointment
• Establish structures and regions
Ongoing culture and change development
Community influence
Technical Assessment
• Current state Asset and Technology inventory
• Data Quality Assessment
Infrastructure and Assets High Level Design
• Technology Strategy and requirements
• Reporting requirements
• Infrastructure and Asset requirements
• Infrastructure and Asset Project business Case(s)
• Tender for supplier
Infrastructure and Assets Sourcing and Design
• Design priority infrastructure
• Design and procure priority applications
• Data readiness
• Technology implementation planning
• Asset implementation planning
Infrastructure Implementation Technology
• Develop build and test priority technology infrastructure and applications
Progressive technology and infrastructure implementation
Asset Deployment
• Deploy assets against plan

Monitoring, evaluation, and review

158. If the proposed reform is agreed, DIA will monitor organisation's progress against the objectives. Funding will also be reviewed (at least every three years) to ensure that the organisation is appropriately funded for its size and responsibilities. Effectiveness and efficiency will also be assessed within that context.

159. The Crown entity (which is a Crown Agent) will be charged with making the changes supported by a transition governance group and the group of interested Ministers.

160. The accountability framework and the strategic plan for the new fire services entity will need to be updated to include outcomes and measures related to its new functions (for example, rural fire). The accountability documents, as mandated by the Crown Entities Act 2004, are entirely suitable for that purpose. These include the Statement of Intent (the strategic planning document) and the Statement of Performance Expectations (covering the outcomes, outputs and their costs). Both these documents are presented to Parliament and form the quantitative basis against which performance will be measured and reported. DIA's monitoring team, in conjunction with the Minister of Internal Affairs, are closely involved with the development of these documents and are responsible for monitoring the outcomes.

161. Additionally, the Minister has other levers to determine the direction the new business will be expected to take. These include a Power of Direction, if necessary, and, more administratively, Letters of Expectation which can be used to include significant detail on the strategic direction required following agreement to the proposed changes.

162. Both these documents will provide a sound basis for DIA to access performance in meeting the detail and wider objectives of any agreed changes. DIA's regular quarterly reporting framework will provide Ministers with the information required, provide assurance that the objectives of the review are being met, and the entity is performing as expected.

163. Due to the need to focus on ensuring a successful transition and implementation, the DIA will need to dedicate resources to assess both the adequacy of transition arrangements, and the implementation of the changes under the new legislative regime. It is likely that the transition programme will, develop outcomes and measures for successful implementation of the reforms, which can be accommodated within any enhanced monitoring framework. If required these initiatives can also be included in the planning and accountability documents. DIA, while retaining its status as an independent monitor, will need to work closely with the new Board, the Transition Governance Group and the group of Ministers until the reforms bed in.

164. A significant focus of the review is on cultural and organisational change. It will be important to undertake qualitative assessments of the reform, informed by discussion with stakeholder groups, volunteers and other government agencies. For example, emergency services, with whom the fire services work, can be surveyed to assess how effectively the new organisation is working with them. The 'health' of the volunteer sector could be assessed by talking to stakeholders such as the United Fire Brigades' Association.

165. The proposed 3-yearly review of the levy, and the associated business planning requirements to support this review, will also provide valuable insights into how the new organisation is operating. In particular, this will offer a strong opportunity to look at the efficiency of the new organisation's operating model, and the sufficiency of the funding framework. It may be necessary for an independent review to be conducted to determine whether the funding is sufficient and if expected efficiencies are being achieved.

166. The Performance Improvement Framework Agency Model[22] is a well-recognised independent review tool being used increasingly by the Crown entity sector[23] to assess how well placed an organisation is to deal with the issues that confront it in the medium-term future. PIF Reviews assess six dimensions of performance and are conducted by external expert parties and inform views on current state (at a chosen time), and where an organisation needs to focus to make itself fit-for-purpose and fit-for-the-future. It may be appropriate for this method of assessment to be used to assess reform progress at a relevant time.

[22] https://www.ssc.govt.nz/pif

[23] For example, the New Zealand Transport Agency, New Zealand Trade and Enterprise, and Careers New Zealand.