Auckland Council submission

Funding Options for Fire and Emergency New Zealand

March 2020

Auckland Council's submission on Funding Options for Fire and Emergency New Zealand

1. Auckland Council welcomes the opportunity to make a submission on Funding Options for Fire and Emergency New Zealand (FENZ).

2. This submission has been approved by the council's Governing Body. The address for service is Auckland Council, Private Bag 92300, Victoria Street West, Auckland 1142.

3. Please direct any enquiries to Matthew Walker, Group Chief Financial Officer, at matthew.walker@aucklandcouncil.govt.nz and/or on 021-229-4094.

Introduction

Executive summary

1. Auckland Council recognises the value to the Auckland region provided by Fire and Emergency New Zealand (FENZ). Fire and Emergency New Zealand protects Aucklanders' lives, limits injuries, and protects property, land and the environment. The council supports the objective of ensuring a stable funding source for the service.

2. Auckland Council does not support using charges on property value collected via the rates bill as an option to fund Fire and Emergency New Zealand. This is the third new charge the government is proposing councils collect on the rates bill. The others are Kāinga Ora rates under the Urban Development Bill and infrastructure levies under the Infrastructure Funding and Financing Bill.

3. Auckland Council supports the introduction of the Kāinga Ora rates and infrastructure levies as mechanisms for addressing Auckland's infrastructure deficit. The council does not support a property value based levy because it is not clear that it will deliver better outcomes than an adjusted insurance based levy.

4. The consultation materials do not provide sufficient information on the distribution of costs and the benefits of FENZ to enable the council to fully assess the options or the potential impacts for Auckland. The council's submission therefore focuses on the potential shortcomings and challenges of using a property levy to fund FENZ.

5. Auckland Council's key submission points for the options presented in the consultation document are that:

   - shifting the levy from property insurance to property values is unlikely to achieve better alignment of costs with the beneficiaries
   - risk that a national levy set on property value will shift costs to Auckland due to higher property values
   - risk that the share of the funding requirement for Auckland will change each year as parts of the country undergo revaluation
   - some of the options for utilising property data would introduce significant complexity and increased administration into the system
   - council should be reimbursed for costs associated with implementation, maintenance of data, invoicing and collection of the levy.

Submission

Principles for FENZ funding model

6. The three key principles for the funding model identified by the review are that it should be universal, equitable and stable. The council has assessed the use of property levy against these criteria.

Universal

7. The review notes that the current funding model does not meet the universal criteria as the uninsured take advantage of the system through free riding. Auckland Council considers that while a levy set on property rates and charged to ratepayers will capture some property owners not currently paying, it risks introducing other anomalies. For example:

   - tenanted commercial properties. Commercial leases usually require tenants to pay the property rates, and currently landlords pay the fire levy through their building insurance. It would be inequitable if the burden of the fire levy, which protects the landlord's investment, was shifted to the tenant.
   - residential tenants currently pay the fire levy on any contents insurance they hold. A move to a property based levy would shift all the burden to landlords as the Residential Tenancies Act 1986 (section 39) makes landlords liable for such charges.
   - some properties that hold insurance are not liable for rates under the Local Government (Rating) Act or other legislation. Additionally, council remits rates for other properties under its Rates remission and postponement policy. From the proposal it is not clear how rates exemptions and remissions will apply to the FENZ levy.

Equitable

8. Moving the levy basis from property insurance to property value will result in significant shifts of liability. No evidence has been provided to show this will result in better alignment with the beneficiaries. Auckland Council submits that as property values are largely driven by land value their use for the FENZ levy will reduce equity in the distribution of the charge. This is discussed further in the following sections.
9. We note that the consultation document shows that medical events are the most commonly attended incident (17 per cent of incidents). This may support a higher central government contribution in recognition of the public health benefits the service provides.

Stable

10. The council agrees that a property based levy would provide a stable source of funding for FENZ.

Levy set on Property Insurance or Property Value

11. Based on the information provided council is unable to determine whether changing the current funding model would better align costs with beneficiaries. The consultation material provides insufficient detail as to how costs are incurred currently and how charges could shift under the proposed models.
12. Council submits that setting a national levy on capital value or land value risks shifting charges to areas with higher property values, reducing the alignment of costs to beneficiaries. The Auckland Region makes up two per cent of the area of New Zealand, but around 40 per cent of the nation's land value.

Use of Property Data

13. A property value based levy would reduce the issue of free riding that occurs with the current property insurance based levy. However, using property values raises significant issues that are likely to outweigh the benefits. Broadly these are:

- property values held by council are primarily driven by land values not improvements, so are poorly aligned to the benefits property owners receive from FENZ.
- council revaluations result in annual changes in the share of national property value in each council district. Nationwide equalisation of values to stop swings in the levy would be a major undertaking.
- basing the levy on factors not currently used to set rates will require significant work to implement. How such factors are assessed or recorded may vary between councils. Use of such factors may result in increased objections for councils.

14. The following table sets out some of the issues that will needed to be considered in relation to each of the property data factors identified in the consultation material.

Option	Response
Capital/Land Value	• A national levy set on this basis has the potential to shift charges to Auckland due to higher land values compared to the rest of New Zealand. • Revaluation occurs every three years. Timing of revaluation differs between councils. Approximately one third of the country is revalued each year which could result in yearly shifts in the levy between council districts. To prevent this would require equalisation of values. Council's valuers have described this as a "massive undertaking", and one that would be required to be performed annually. • Land values are not aligned to benefits received from FENZ, instead reflecting desirability of the land. Factors such as views have no bearing on fire risk but significantly impacts land values. • Capping the levy or setting a revenue requirement by region/district may assist these issues but would need to reflect the benefits from services provided by FENZ.
Improvement values	• Legislation defines improvement values as capital value minus land value. They are not an assessment of the actual value of improvements. • Properties with similar improvements can have significantly different improvement values depending on the relative the desirability of the underlying land for redevelopment. • The fire levy is currently charged on insurance for contract works (insurance for building works during the construction phase). Council normally undertakes revaluation on completion of works (following issue of code compliance), and the amended rating values only take effect in the following financial period.
Rateability	• Around 5 per cent the value of property in Auckland is non-rateable. • Some non-rateable properties such as schools and hospitals will currently pay insurance levies. Other properties such as parks and urupa may not. • Generating a rates notice for properties not currently being invoiced may be problematic, particularly for sensitive land such as urupa.

	• In Auckland, the majority of Watercare improvements are non-rateable under the Local Government (Auckland Council) Act 2009. There may be other discrepancies between council areas. • Auckland Council also remits rates for some types of properties under its remission policies. These include undeveloped Māori land and uninhabitable islands. The use of remissions will vary between councils. • A levy on property would need to consider whether exemption for some categories of property are appropriate.
Land use	• Auckland Council applies its own policy definitions to categorise properties as residential or business use for rating purposes. These do not necessarily match definitions used by other councils. • A property may have multiple uses. While these uses may be identified in the valuation roll, they may not be held in the rating database if they do not result in differences in rating.
Land area	• Around 40% of Auckland council rating units do not have land area data. Unit title, cross-lease and leasehold properties do not have associated land areas. FENZ would need a mechanism to define land area for these properties if it wished to utilise this factor for setting a levy.
Building area, Building composition and Year of construction	• These factors do not form part of the rating database. They are held in the valuation roll for the purposes of valuing properties. • Significant work would be required to form a consistent nationwide data set for the purposes of the levy – issues include: ▪ properties with mixed aged and building materials. ▪ building composition may not hold sufficient detail to identify fire risk eg: a "tile" roof can be concrete, steel or decramastic. ▪ building area includes internal garages but not external ones. ▪ data for non-rateable properties eg: schools is not maintained to the same standard as rateable properties.
Location	• Auckland Council applies its own policy definitions to categorise properties as rural or urban for rating purposes. This definition is not aligned with definitions for rural and urban fire districts.

15. Auckland Council notes that data that is held in the valuation roll is held at the property level. Rates invoices and rateable factors are based on rate accounts. If FENZ is to supply factors for invoicing to council, this will need to be provided for rate accounts not properties to ensure it aligns with rating practice.

Implementation and administration of levy by council

16. Where councils are required to help implement and/or administer this levy, they should be adequately compensated.

17. The current consultation material does not provide detail of how a council invoiced property value levy would be implemented or administered. Further information is required on issues including:

    - who would be responsible for enquiries?
    - collection and enforcement processes
    - what precedence would the FENZ levy have in relation to rates.

18. While it is feasible for council to levy an additional charge on its rates notice, significant effort may be required for implementation. A lead time of a year is likely to be required.

19. Any levy should be in place in time for the start of the rating year. It will also increase complexity of the rates bill by requiring more information to be provided.

Māori land

20. Council agrees with the issues identified by the DIA in regard to Māori land. In addition, the council notes that that some Māori land:

    - is undeveloped or may be difficult to develop and accordingly is unable to generate revenue from which charges on land can be paid
    - users of the land are not always reflected in ratepayer data making collection of rates and other charges on land difficult.

21. Auckland Council recognises these issues through the use of remissions for Māori land. These issues may also apply to only part of a block of land. To accommodate these circumstances our remissions can be applied to a part of a property. Council requests that a property based levy have similar flexibility to address issues for Māori land.