

Rural and urban fire fighters merge

Jo McIntosh

There has been soome recent publicity in respect of the amalgamation of rural and urban fire fighters. This is the most significant change to the fire service since the Forest and Rural Fires Act 1977 and will determine how Fire and Emergency New Zealand will operate. These changes will directly affect forest owners. There are around 40 separate organisations, 600 fire forces, 12,000 volunteers and 3,000 paid staff to bring together under one organisation, so it will be a huge task.

The amalgamation may have some significant long-term advantages, but the scale makes this a complex exercise. Like many people, I have my concerns about the transitional issues and the expected service, as well as cost management. In particular, my concerns are focused around fire-fighting operations in respect of forest fires and the future effect on overall costs. I also have continued concerns around how the fire service will be funded.

The changes are being made in phases. The Fire and Emergency New Zealand (FENZ) Bill is expected to come into effect on 1 July and there are other proposed areas for review over future years. These changes will affect all New Zealanders and of particular note for forest owners are the latter phases, which include a review of –

- Fire plans
- Infringement offences including offences currently specified in the Forest and and Rural Fires Act Levy dispute
- The review of levy exemptions – standing timber is currently exempt from paying a fire service levy.

Levy or tax?

One of the main areas of controversy is that the fire service is not changing how it is funded. Despite intense lobbying, the fire service will continue to be funded by a levy on insurance. This is effectively a tax paid only by those who insure. There are strong views that this is innately unfair. Why should a service provided to everyone be paid for by only those who insure?

In addition, there is no question that this extra tax acts as a disincentive to insure and actually encourages people to under-insure. As the Christchurch and Kaikoura experiences have clearly shown, not having adequate insurance in place can lead to devastating results.

It is therefore fair to say that the insurance industry and the fire service are not happy bed mates in this respect. As a broker, I do not consider this tax is fair to

my clients. I should not be a tax collector and neither should insurers.

Raising the fire levy

To rub salt into the wound, one of the first actions taken by the government has been to raise the levy payable. The government confirmed a levy increase of 40 per cent, with this increase taking effect from July 2017. As far as many observers can see, including the insurance industry, this increase is simply to pay for the cost of the merger, with no additional service or value.

The levy is currently paid on insurance for property and motor vehicles. From July, those who insure their home, property and motor vehicle will see an increase in the levy payable. The immediate effect of the merger to date seems to simply be higher levies and stronger compliance measures – and it gets worse.

As noted above, one of the future Fire and Emergency New Zealand discussion points is to consider applying the levy to other items which are currently exempt, including crops and standing timber. Large areas of New Zealand forestry are owned by international owners, many of these, due to their size and spread of risk, can choose not to insure. However, smaller investors who may have planted trees for a retirement income need to insure their investment because they cannot afford the effect of a large-scale loss. Therefore, if there is a change and a levy is applied to standing timber insurance, once again only those who insure will pay this levy, which further illustrates and aggravates the unfair nature of this tax.

Operational aspects

The other area that many forest owners who I talk to have questions about is the day-to-day operations of their Rural Fire Authorities. How will they be rolled into the new structure? Rural fires are very different from urban fires and require specific training and equipment. Many of the larger New Zealand forest owners have their own fire tenders, trained crew and

independent plans. How will all these various interested parties be integrated?

The transition team recently ran some roadshows and had a number of meetings around New Zealand with sessions attended by forest owners, fire volunteers and other interested parties.

A number of problems were raised at these meetings. An illustrative sample of some of the questions and answers is noted below.

Q. How will forestry work with Fire and Emergency New Zealand to continue operations when there is a heightened risk of fire?

A. There are already several models where this works today. There are current guidelines and trigger points informing when restrictions should be put into place. Further work is being done by Scion to develop these. As now in Rural Fire Authority plans, we would expect to see a risk-based approach taken to ensuring that the degree of operations and required mitigation is matched to the local risk conditions. This can be done using much the same approach and tools as today. The triggers and thresholds are to be mutually agreed in a similar way to how foresters work with Rural Fire Authorities now.

Q. If there is a fire, what is the command and control structure?

A. From day one, the current arrangement and handovers between New Zealand Fire Service and rural fire will continue. Fire and Emergency New Zealand will continue to use Co-ordinated Incident Management Service

Q. How can the forestry industry be sure that it has some influence on Fire and Emergency New Zealand?

A. Fire and Emergency New Zealand encourages formal arrangements between forestry companies and local Fire and Emergency New Zealand management which sets clear expectations on operational matters relating to forest fire control. These agreements will be negotiated and agreed at a local level. Forestry is expected to have a voice on some local advisory committees which help influence local resource allocation and prioritisation.

From this you can see that much of the old system will be rolled into the new but there is some significant work to do to formalise much of the process.

Fire-fighting charges and expenses cover

One of the other questions which came up at the recent meetings was around the need to carry on with fire-fighting cover under the standing timber policies. As noted in my previous article, having a reasonable limit for this has been very important because if a fire starts in your block, you can simply be sent the bill.

The recovery section under the Forest and Rural Fires Act will be repealed and the Fire and Emergency New Zealand Transition team has said 'there will be no requirement to insure against cost recovery as this will disappear'. However, they stopped short of saying that fire suppression insurance is no longer required.

What does this mean for you? Well it looks likely that the need for fire-fighting cover will reduce after July. If you have a policy renewal before this date, we recommend you retain current limits. We also recommend that you take a cautious approach and, given that this new legislation needs some time to settle, I would suggest it is wise to retain some cover.

As you will note above, infringement offences and how they will be dealt with is an area that is earmarked for review in a later phase of this change. The other point worth highlighting is that these changes do not reduce the need for public liability insurance. The risk of being held legally liable for third party property damage as a result of your forestry activity still exists. For example a fire that spreads from your forestry block and burns down the neighbour's block

Standing timber insurers

The changes are a bit of a mixed bag for insurers. As noted above, insurers and brokers are not comfortable collecting this tax in the first place. General insurers, such as the property and motor insurers, are not happy with higher levies and are particularly concerned about potential no insurance and under insurance effects. They also question what we are all getting for the extra money.

Liability insurers are likely to be more comfortable as the risk of claims for fire recovery have reduced and they will no longer have the risk of a claim under the recovery sections of the Forest and Rural Fires Act. They will, however, still have the risk of third party property damage and will monitor the up-coming phases of Fire and Emergency New Zealand in respect to proposed recovery changes.

Similarly, standing timber insurers are be more comfortable in respect of fire-fighting expenses but have concerns around the merger having a negative effect on fire fighting and fire risk management. It is another interesting time to be involved in this industry.

I encourage all forest owners, or indeed anyone who insurers to have their say on the coming changes. The government discussion document is available at www.dia.govt.nz/Fire-Services-Transition

As a specialist forestry broker, Aon will keep abreast of developments and work with our clients to make sure your policies are tailored and optimised to suit the current legislative environment.

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