



Hamilton City Council – Staff Feedback

**Economic Regulation of Water
Services – Information Disclosure
(12 February 2025 Discussion
Paper)**

New Zealand Commerce Commission

3 April 2025

Improving the Wellbeing of Hamiltonians

Hamilton City Council is focused on improving the wellbeing of Hamiltonians through delivering to our five priorities of shaping:

- **A city that's easy to live in**
- **A city where our people thrive**
- **A central city where our people love to be**
- **A fun city with lots to do**
- **A green city**

The topic of this staff feedback is aligned with all of Hamilton City Council's five priorities.

Council Approval and Reference

This staff feedback was approved by Hamilton City Council's Chief Executive on 3 April 2025.

Feedback # 794

It should be noted that the following feedback is from staff at Hamilton City Council and does not, therefore, necessarily represent the views of the Council itself.

Introduction

1. Hamilton City Council staff welcome the opportunity to provide feedback to the New Zealand Commerce Commission's (the Commission) 12 February 2025 Discussion Paper, **Economic Regulation of Water Services – Information Disclosure**.
2. Hamilton City Council is the largest water services provider in the Waikato, providing water, wastewater, and stormwater services to New Zealand's fourth largest and fastest-growing city, and we have a strong track record for delivering high-quality water services to our communities, investing in infrastructure, and meeting environmental standards.
3. Hamilton City Council staff support the important role the Commission will play in its new functions as the economic regulator in the water sector and welcome the emphasis on transparency and consumer protections.
4. Staff understand the Commission's challenges in accommodating the diverse circumstances of local providers, learning from international best practice, being dependant on the quality of information from providers, staying joined-up with other regulators, and adhering to the expected timeframes of setting initial information disclosure requirements six months after the commencement of the Local Government (Water Services) Bill.
5. Staff also appreciate the Commission's intent in establishing relationships with waters providers and allowing input into the implementation of its economic regulation regime as early as possible.
6. Staff recognise that this consultation and associated discussion document is the first step in engaging with water sector stakeholders for views on how a new information disclosure regime may be developed, and look forward to providing further responses in the future as the initial determination is developed.
7. Staff have provided feedback in two parts:
 - a. **Part 1** provides high-level feedback on the information disclosure itself; and
 - b. **Part 2** provides more detailed feedback on the Technical Working Paper on the Accounting Basis for Regulatory Reporting.
8. Hamilton City Council and staff take an active interest in the waters reform space, with links to our recent submissions in the waters space included below:
 - **20 February 2025** [Council submission to the Local Government \(Water Services\) Bill](#)
 - **23 January 2025** [Staff submission to the Ministry of Business, Innovation and Employment's November 2024 Discussion Document Commerce Commission Levy for the Economic Regulation of Water Services](#)
 - **23 January 2025** [Staff submission to Taumata Arowai's Consultation on the Water Services Authority – Taumata Arowai Levy for 2025 – 2028 \(Discussion Document on a Proposed Levy for Council Drinking Water Supplies and Network Operators Under the Water Services Act 2021\)](#)

Key Messages and Recommendations

9. Part 1: Information Disclosure

- 10. Staff support the intent and approach taken by the Commission in the development of the information disclosure regime, and generally support the proposal.
- 11. We urge caution about the application of 'for profit' consideration of incentives and drivers to the operation of water utilities which are fundamentally public good undertakings that are not expected to generate returns to shareholders.
- 12. All or the majority of the required information should become standardised, and organisations grouped into comparable tiers to ensure fair comparison.
- 13. A confidence rating should be applied to supplied information to ensure limitations are understood.
- 14. Alignment between regulators is essential.
- 15. Implementation of the information disclosure regime should be staged.
- 16. Ensure reporting requirements are appropriate, manageable, and cost-effective and recognise the significant challenges that are associated with establishing new water organisations and combining the operations of different local authorities.

17. Part 2: Asset Valuation for Water Services

- 18. Ensure a standardised approach to initial asset valuation.
- 19. Align financial and regulatory reporting.
- 20. Recognise regional cost differences.
- 21. Review long-term financial implications.

Part 1: Information Disclosure

- 22. Staff support the introduction of information disclosure as the initial regulatory tool for the Commission's economic regulation of waters service providers, and the process the Commission is following to first establish a foundational information disclosure regime that will inform enduring information disclosure and indeed between different regulators.
- 23. Information disclosure provides incentive for suppliers to improve their performance, innovate, improve efficiency, and provide water services at a quality that reflects consumer demands. It also brings consumers along on the journey of improving efficiency, provides transparency, and allows for increased customer confidence.
- 24. However, staff are concerned that the language and approach to the consideration of incentives that the Commission seems to be using reflects an approach that is grounded in fully commercial utilities that are operated to provide a return on investment to shareholders. Water services are a fundamental public good and it is not expected that water organisations will pay dividends to shareholders. This means that water organisations will be responsive to different incentives and drivers than the other fully commercial undertakings. We encourage the Commission to consider this important distinction as it develops the economic regulatory regime further.

Performance and Information Requirements

25. Staff recognise that the information or questions that stakeholders, especially consumers, may have the most interest in seeing may not completely align with information staff would have the most interest in. However, staff acknowledge the level of thinking put into Table 2.1 and 2.2 of the discussion document and believe it is a good base to inform the information disclosure determination.
26. It is assumed that consumers would want information on what providers are doing to improve financial performance, as much as understanding the performance metrics themselves. This information could include what monitoring, checks, third-party certifications, non-conformance investigations, or quality management systems are in place to show the provider's ongoing commitment to improved performance.
27. Staff would also be interested in the feedback received through this consultation from consumers themselves or consumer groups on any changes or additional information of interest.
28. It is also important to note that all non-financial information that will be required by the Commission will likely become the organisation's non-financial performance measures and the KPIs for how the waters organisations are run.

Comparability of Information

29. Staff suggest that all reported information needs to become standardised to ensure comparisons are fair. This would especially be important for asset management information where there are currently significant differences between councils on the information recorded and the way in which the status of an asset is judged and recorded. For example, what may be considered "poor condition" for an asset in one council may not be considered "poor condition" in another. The standardisation of this information also allows New Zealand to align more with international best practice.
30. A tiered structure may also help in the early stages of implementation where organisations are grouped into comparable tiers based on the size of their respective populations.
31. Staff also suggest that a confidence rating is applied to each data requirement, especially in the beginning of the regime, to ensure the limitations of the data are understood.

Costs of Information Disclosure

32. Staff support the Commission's intent to develop information disclosure requirements in a cost-effective manner, but also encourage the Commission to consider the following aspects when considering cost-effectiveness:
 - a. Current system capability, configuration, and level of investment required to upgrade systems.
 - b. Existing data availability and confidence.
 - c. The feasibility, practicality, and cost of addressing data gaps changing information standards and requirements, and implementing new reporting.
 - d. The time required to respond to new standards, including providing sufficient time to plan the required investments and data collection and engagement with our customers.

Implementation

33. Staff acknowledge that the Commission and Taumata Arowai have a memorandum of understanding and that the two regulators are already working/intending to work together to align information requirements and support the efforts.
34. The alignment of information requirement between regulators is essential in order to minimise the complexity and cost of the reporting. This alignment should include the Commission, the Authority, and the Department of Internal Affairs to avoid conflicting definitions and maximise the ability of waters service providers to simplify data collection and reporting.
35. As recognised by the Commission, the context in which these new requirements will be received is extremely important. It will be during the establishment period for new waters organisations where there will be limited ability to respond to new requirements, particularly for water organisations where more than local authority will be included.
36. Staff suggest a staged approach to minimise impacts over a longer time period than the short-term indicated in the discussion document. Asset management is a key category where longer-term implementation and improvements will likely be required. This staged approach could be as follows:
 - a. First stage: What information does the organisation have and how is it reported.
 - b. Second stage: The Commission sets its expectations and begins the move towards standardisation. In this case, a roadmap would be beneficial.
37. An adequate lead-in period for new requirements will be essential in ensuring compliance during all the changes in processes.

Further Collaboration

38. Staff support the Commission's intent to further develop information disclosure requirements with key stakeholders, and suggest establishing technical focus groups, noting the possible targeted workshops mentioned in the discussion document. These groups could be an effective approach to access more detailed technical knowledge and expertise within territorial authorities and ensure information disclosure requirements are phased appropriately.

Part 2: Asset Valuation for Waters Services

Importance of Valuation Methodology in Pricing

39. Staff are conscious that the choice of valuation methodology for waters assets, particularly if the approach is at the point of transfer to a Council Controlled Organisation (CCO) will have long-term effects on consumer pricing that may be further exacerbated in joint council waters CCOs, especially if a Regulated Asset Base (RAB) methodology is chosen. The initial asset valuation could significantly influence the impact of indexed price changes, which influence the costs that will need to be recovered through water charges.
40. Given water infrastructure requires ongoing renewal and expansion, staff are concerned that any mismatch between initial valuation and future costs could create affordability risks, sudden price escalations, or financial instability. This underscores the need for careful consideration of how initial asset values are set.

Complexity, Cost, and Reduced Transparency from Valuation Inconsistencies

41. Staff expect that the most common approach to the delivery of water services will be to transfer water and wastewater assets and responsibilities to a water organisation, but for councils to retain stormwater assets. The application of the valuation methodologies considered by the Commission would result in different valuation methodologies for stormwater services (which remain with councils) and water and wastewater (having been transferred to CCOs), while applying the same reporting valuation method across all three waters. This outcome would introduce significant financial complexity and compliance costs, especially on a council's reporting framework, which may ultimately reduce rather than increase transparency for users of the financial information.
42. This misalignment between different waters valuations and reporting methods means councils may report on stormwater assets at revalued amounts, while CCO's assets remain on a historic or indexed cost basis. This leads to inconsistency and makes it harder to compare total infrastructure investment, assess funding needs, and reconcile council financial statements with CCO disclosures.
43. If a council retains an equity stake in the CCO, but its assets are valued differently than other council-owned infrastructure, the equity value recorded in council accounts may not align with the underlying asset base of the CCO. This could create variability in financial performance reporting, leading to challenges in asset management planning, inconsistent depreciation expenses, and difficulties in consolidating financial statements. Over time, these discrepancies could erode financial transparency, making it harder for ratepayers and stakeholders to understand the true cost of delivering water services.
44. Staff consider that aligning methodologies or ensuring clear reconciliations and consistency in supporting notes across the sector will be critical in maintaining trust, financial clarity, and efficiency in the new regulatory framework. We consider that this requires more careful consideration, not just of the regulation of water organisations, but of the impact on shareholding Councils and on Councils as water services providers (for stormwater).

Impacts and Challenges of Asset Transfers

45. Impact on Council Finances: Transferring assets at a different valuation than councils currently use could change councils' reported asset values and financial position, affecting balance sheet strength and financial reporting consistency.
46. Pricing Impacts: If the CCOs RAB is based on lower historic costs, consumer prices may initially be lower but could underfund future renewals, leading to larger price increases later. If it is based on replacement cost, prices may be higher, but better align with future infrastructure needs.
47. Consolidation Challenges for CCOs: If councils establish waters CCOs, they will hold significant infrastructure-backed assets. If the valuation basis of the CCO and its parent council differs, this may create inconsistencies in financial reporting and asset management decisions. Councils may struggle to consolidate financial statements when stormwater is revalued regularly, but WSE assets are held at a different valuation.
48. Integration Challenges: With stormwater remaining under council control, coordinating long-term planning and investment between councils and CCOs will be complex. Differences in accounting and funding models may lead to misaligned infrastructure investment decisions.
49. Each valuation methodology has its own set of benefits, but each also comes with potential unintended consequences. In addition to the benefits, these consequences should be clearly identified. Where possible, mitigation approaches, such as consistency in notes to financial reporting across the sector, should be applied.

Risk of Regional and Geographical Variability in Asset Valuation

50. Staff note that a uniform indexed RAB approach may not fully reflect regional cost variations in infrastructure replacement. Water networks across New Zealand face highly variable construction and renewal costs, influenced by:
- a. **Geology and Topography:** Areas with challenging terrain (e.g., mountainous regions, coastal zones) face higher infrastructure costs due to difficult excavation, ground stability issues, or susceptibility to natural hazards.
 - b. **Supply Chain and Labour Costs:** Rural or remote areas often experience higher infrastructure delivery costs due to limited contractor availability, higher material transport costs, and supply chain constraints.
 - c. **Urban versus Regional Cost Differences:** Large urban centres may benefit from economies of scale and densities of population reducing per-unit replacement costs. However, smaller councils may have higher unit costs due to smaller-scale projects, fewer competitive suppliers and the size of their catchments and population base.
 - d. **Historical Underinvestment:** Some councils have deferred major renewals due to funding constraints, meaning that future replacement costs could be significantly higher than past capital costs, which an indexed RAB may not capture.
51. If a nationally consistent RAB approach is applied using historic cost with indexation, it may understate true asset replacement costs in higher-cost regions and overstate them in lower-cost regions. This could lead to:
- a. Underfunding of future infrastructure needs in high-cost areas, increasing future debt or requiring unexpected tariff increases.
 - b. Over-recovery in lower-cost areas, potentially leading to charges that exceed the actual cost of service provision.

Further Information and Opportunity to Discuss our Feedback

52. Should the New Zealand Commerce Commission require clarification of the feedback from Hamilton City Council staff, or additional information, please contact **Jade Watene** (Environmental Policy Analyst – Infrastructure and Assets Group) on **07 838 6852**, or email Jade.Watene@hcc.govt.nz in the first instance.
53. Hamilton City Council representatives would welcome the opportunity to discuss the content of this feedback or the discussion document in more detail with the New Zealand Commerce Commission.

Yours faithfully



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CHIEF EXECUTIVE

FURTHER INFORMATION

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