



Hamilton City Council – Staff Submission

**Commerce Commission Levy for the
Economic Regulation of Water
Services (November 2024
Discussion Document)**

**Ministry of Business, Innovation and
Employment**

23 January 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 submission is aligned with all of Hamilton City Council's five priorities.

Council Approval and Reference

This staff submission was approved by Hamilton City Council's Chief Executive on 23 January 2025.

Submission # 784

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

Introduction

1. Hamilton City Council provides water, wastewater, and stormwater services to New Zealand's fourth-largest and fastest-growing city.
2. Hamilton City Council staff welcome the opportunity to make a submission to the Ministry of Business, Innovation and Employment on its November 2024 Discussion Document: **Commerce Commission Levy for the Economic Regulation of Water Services**.
3. Staff understand the Commerce Commission (the Commission) is enabled, under the current Local Government (Water Services) Bill 2024, with the levy regulation-making power in Part 4 of the Commerce Act 1986, to recover the costs of its new functions through the implementation of a levy regime.
4. Staff support the important role that the Commission will play in its new functions as the economic regulator in the waters space and welcome the emphasis on transparency and consumer protections.
5. Staff recognise that the proposed approach strives to accurately reflect the costs of the services provided, and promote the principles of equity and the 'exacerbator pays'. However, as with all the current ongoing changes in the waters space, this has substantial cost implications for water service providers and consequently our customers.

Response

6. Part 1: Levy Structure

7. *What are your views on the preferred option for a levy to fully recover the costs of the Commission's new functions from 1 July onwards from regulated water services suppliers, excluding litigation and Crown Monitor costs for Watercare?*
8. Staff understand and support the intent and reasoning for the Commission's preferred option, however, due to the substantial cost implications, staff challenge the implementation of full cost recovery from 1 July 2025.
9. As an organisation that works under the Local Government Act 2002, Hamilton City Council is required to follow Annual Plan and Long Term Plan planning cycles. By imposing the full costs of the Commission's economic regulation from 1 July 2025, this levy is an unbudgeted and unexpected expense that doesn't fall within our planning timeframes. This creates risk that other planned and budgeted works will need to be reprioritised to fund the regulation.
10. These risks can be mitigated through staged levy implementation which is discussed further in **Part 4: Levy Implementation**.

11. Part 2: Levy Design

12. *What are your views on the proposed levy design?*

13. Staff support the intent behind the proposed levy design in allowing the Commission flexibility to determine which tools apply to particular regulated suppliers, and when. However, the design, as outlined in the discussion document, provides inadequate information on which activities, for which a levy is payable, will be applicable to which supplier/organisation in the future. To support long-term planning, staff seek clarification on which regulatory charges are likely to apply to each provider.
14. With the indicative costs of the core regulation of water services for Hamilton City Council being \$227,470 each year, and with the uncertainty of the application of the other activities and their related costs, staff highlighted the financial implications this will have in additional costs for our customers.
15. As more activities for which a levy is payable become regulated by the Commission, it is important that there is alignment with planning processes to allow the cost of regulation to be budgeted and managed as best as possible by providers.
16. Staff acknowledge that there is a balance between an equitable levy and ensuring levy costs do not rise due to administrative burden, and recognise that the proposed levy is relatively light in administration as opposed to other considered options.
17. *How would the proposed levy design impact on your organisation (whether now or in the future)? Please provide your assessment of the nature and extent of these impacts.*
18. The proposed levy design would immediately create uncertainty around future compliance costs due to the lack of information provided on how suppliers will be designated as subject to the additional tools outside of core regulation.
19. *Do you have any comments on how the levy design could be improved? Please provide reasons.*
20. With the requirements for Councils to ringfence their costs for water, wastewater, and stormwater activities, it would be helpful if the levy detailed the proportions of the proposed levies in regard to these activities, noting that stormwater is not designated during the first levy period within the discussion document. Staff acknowledge that this may be difficult to estimate depending on a range of factors, but support and encourage the further alignment with Taumata Arowai's levy proposal that separates their levy into these activities proportionate to their current applicability.
21. It would also be helpful for indicative costs to be given to the end of the 10 years that the Water Services Strategy will cover, pending the review which could change how the levy is applied.

22. Part 3: Levy Apportionment

23. *Do you have any comments on the preferred option for apportionment of the levy to each regulated supplier?*

24. Staff do not support the sole use of population-based apportionment as it does not adequately account for the different circumstances of different councils e.g. rural communities that are not using/connected to water services or communities that have a small resident population but have systems that are geared towards peak holiday loading.
25. Population apportionment alone may not encourage larger water organisations under Local Water Done Well, and does not recognise that regulatory costs should diminish as the Commission regulates fewer water entities due to possible CCO amalgamations. Population is also a metric that is not provided by Councils, and is not always accurate through the Census of Population and Dwellings.

26. Staff recognise that, as an immediate measure, population is a reasonable variable apportionment metric due to current inadequate information regarding other possible metrics such as connections, serviced population, or water volume take/use. However, staff expect future reviews to consider more nuanced metrics to enhance equality and equity. This allows time to standardise metrics such as connections or water volumes for future use in cost allocations.
27. In regard to the possible use of water volumes as a cost allocation metric, this could incentivise a reduction in water use for a particular area.
28. ***How would the proposed method of apportionment impact on your organisation (whether now or in the future)? Please provide your assessment of the nature and extent of these impacts.***
29. The proposed method puts more financial responsibility of regulation on Hamilton City Council due to its population. This exacerbates the strain of an already unbudgeted and unplanned compliance cost and creates an additional cost to our customers.
30. With a combined total indicative cost of \$1,092,965 (incl. GST) for both levies, this equates to an additional \$16.80 per property across our 65,000 rating units, with this expected to increase due to regulatory activities for which a levy is payable being added, and as water charges are implemented in place of rates and unconnected rural properties are no longer charged.
31. ***Do you have any comments on alternative options to apportion the levy? If another option is preferred, please provide reasons.***
32. Staff prefer a mixed charge model, with some charges being a flat rate per entity and others being based on population, connections, or volume metrics.
33. There is a certain amount of fixed costs that should be split evenly across water suppliers due to the associated work being similar for all e.g. information disclosure. Then, with the application of a variable cost for activities that require more administration due to supplier size, the costs will be shared more fairly.
- 34. Part 4: Levy Implementation**
35. ***Do you see any issues with your implementation of the levy (receipt of invoices, payment and passing the cost on as you may determine)? If so what are those issues?***
36. As mentioned in **Part 1: Levy Structure**; by imposing the full costs of the Commission's economic regulation from 1 July 2025, this levy is an unbudgeted and unexpected expense that doesn't fall within our planning timeframes. This creates risk that other planned and budgeted works remain incomplete to fund the regulation.
37. These risks can be mitigated through staged levy implementation that allows for an appropriate transition period of 1-2 years, where a portion of the Commission's costs are recovered through the levy and the rest is subsidised by the Crown. This doesn't put as much strain on water suppliers to absorb the new costs, and allows for possible alignment with the Water Services Strategy planning period, once full costs are implemented.
38. Alignment with the Water Services Strategy allows for further transparency with our communities regarding the costs of the services going forward.
39. Considering that both the Commission and Taumata Arowai are consulting on their associated levies at this time, which will not be finalised until mid-2025, staff question the reality of meeting the timeframes to allocate these large sums into financial budgets so late in the process.

40. *Would the proposed implementation approach create any challenges for your organisation? If so, what would these be in practice and are there solutions you wish to propose?*

41. As above.

42. *Do you have a preference for when the levy should be reviewed next? If so, why?*

43. Staff would prefer that the levy be reviewed before the Water Services Strategy needs to be set. Staff understand that this would require a quick review after levy implementation (as currently proposed), where there is very little information, but staff suggest that the first review need not be fully in-depth and could essentially be used to reset the review periods in line with future planning cycles, especially with the Water Services Strategy.

44. Timing alignment in the longer term is critical for effective and efficient planning and management of water services and their related costs. Staff cannot build in costs that they do not know about. Estimates can be made, but that introduces a level of uncertainty and risk that is unproductive and inefficient in the management of water services.

45. General Comments

46. Staff noted that there are cost implications outside of the levies themselves due to the changes councils will need to make to respond to activities, such as the increased need for information disclosure due to the regulation. These costs are also unplanned and unbudgeted, and will possibly require more resourcing. For these increased reporting activities, staff also highlighted the need for reporting timelines across different organisations to be streamlined and adjusted to align with the proposed Water Services Strategy timeframes and ensure efficient reporting systems.

47. Staff also note that there are a number of proposed changes within the waters space that will have cost implications for consumers including those signalled in the Local Government (Water Services) Bill. These costs are currently unplanned and may also need to be implemented outside the window of current financial planning timeframes like this proposed levy.

Further Information and Opportunity to Discuss Our Submission

48. Should the Ministry of Business, Innovation and Employment require clarification of the submission 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.

49. Hamilton City Council representatives would welcome the opportunity to discuss the content of this submission in more detail with the Ministry of Business, Innovation and Employment

Yours faithfully



Lance Vervoort
CHIEF EXECUTIVE

Hamilton City Council
Garden Place, Private Bag 3010, Hamilton

 /HamiltoncityCouncil

 @hamiltoncitycouncil

 07 838 6699

hamilton.govt.nz