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Christchurch City Council submission on the *proposed levy to recover Commerce Commission costs of regulating water services*

Christchurch City Council (the Council) thanks the Ministry of Business, Innovation and Employment (MBIE) for the opportunity to provide comment on the proposed levy to recover Commerce Commission costs of regulating water services.

The Council acknowledges the critical role of the Commerce Commission in implementing the economic regulation of water services and supports the goal of ensuring robust and equitable oversight. However, we must highlight that this levy represents another financial burden on local government, with significant direct impacts on ratepayers.

The tight timeline for implementation compounds these challenges, offering limited opportunities for councils to engage fully with elected members or incorporate the levy into annual planning processes. This creates risks for transparency and accountability to our communities. We recommend that MBIE consider extending the timeline or introducing transitional provisions to ease implementation.

Feedback from Elected Members

While this submission is prepared by staff, we believe it is important to convey the sentiments expressed by our elected members during a recent briefing. The elected members have significant concerns regarding the proposed levy. They feel that the levy is unjustified and do not support its implementation in its current form. Their concerns centre around the following points:

- **Accountability and Control:** The levy transfers costs directly to ratepayers without providing councils with any ability to influence or reduce these costs. This lack of control over expenditure undermines local accountability and fiscal management.
- **Precedent of Cost Transfer:** Imposing centrally determined levies on local ratepayers sets a concerning precedent. It effectively shifts the financial burden of nationally mandated regulations onto local communities, which may not have the capacity to absorb additional costs.
- **Public Good Consideration:** Elected members believe that since the regulations and associated benefits serve a national interest, funding should be sourced centrally. The public good derived from these regulatory activities justifies central government funding rather than local levies.

- **Impact on Council Services and Rates:** The levy would necessitate a rates increase of approximately 0.06%, a decision over which the Council has no discretion. This contradicts recent government directives urging councils to reduce rates and focus on core services. The additional financial burden may compel the Council to reallocate funds from other essential services, adversely affecting the community.

Considering these concerns, our elected members urge a reconsideration of the levy's structure and funding source. They advocate for a model that recognises the public good aspect of the regulations and retains local fiscal autonomy. The Council remains committed to working collaboratively with central government to achieve the shared goal of improved water services but seeks a funding approach that is equitable and respects the financial constraints of our local community.

Feedback in relation to the Discussion Document

The following responses are provided as a direct response to the questions outlined in the discussion document. They address the proposed levy structure, design, apportionment, and implementation, as they relate to the Council.

Q1: What are your views on the preferred option for a levy to fully recover the costs of the Commission's new functions?

The Council does not support the principle of cost recovery for this regulatory function.

However, if cost recovery is pursued as per the proposal, we are concerned about the equity of the model, which applies uniform cost allocation irrespective of compliance history or regulatory intervention needs.

- A generic structure is understandable during the initial setup phase to ensure simplicity.
- However, as the regime matures, the levy should account for differences in compliance and intervention levels to avoid compliant councils disproportionately subsidising others.

Recommendations if a levy is pursued:

- Develop a plan for transitioning to a performance-based levy model as compliance data becomes available.
- Provide clear, detailed reporting on how levy funds are allocated and used to promote transparency and accountability.

Q2: What are your views on the proposed levy design?

We acknowledge the flexibility in the levy design, which allows costs to align with specific regulatory tools. However, transparency around preparatory costs and allocation mechanisms remains unclear.

Recommendations:

- Introduce annual reporting to clarify fund allocation and preparatory costs, ensuring councils and ratepayers understand the value derived from the levy.
- Incorporate incentives, such as reduced levies or rebates, for councils demonstrating strong compliance records.

Q3: How would the proposed levy design impact your organisation?

The proposed design imposes financial pressures on the Council, likely necessitating:

- Rate increases, which will face public resistance.
- Reduced capacity to fund other critical priorities such as climate resilience and infrastructure renewal.

Q4: How could the levy design be improved?

- Gradually phase in the levy to support councils in budget adjustments and ratepayer communication.
- Share costs with central government to reflect the national significance of water regulation and reduce burdens on local councils.
- Develop a plan for transitioning to a performance-based levy model as compliance data becomes available.

Q5: What are your comments on the preferred population-based apportionment method?

While administratively simple, the population-based approach overlooks critical factors such as compliance history, regulatory needs, and unique challenges.

Proposed Alternative:

- Adopt a hybrid apportionment model that considers:
 - Population size for scale.
 - Asset value to account for infrastructure complexity.
 - Compliance history to incentivise strong governance.

Q6: How would the proposed method of apportionment impact your organisation?

We risk bearing disproportionate costs regardless of any proactive investment we make into compliance systems and activity.

Q7: Do you have comments on alternative apportionment options?

A performance-based model would better align costs with intervention needs, promote equity, and reward councils with strong compliance.

Q8: Do you see any issues with the levy implementation?

We support quarterly invoicing but highlight the need for clear guidance on how to integrate levy costs into existing rating structures. This will reduce administrative burdens and ensure transparency for ratepayers.

Recommendations:

- Provide standardised templates to help councils communicate levy impacts transparently to ratepayers.

Q9: Would the proposed implementation approach create challenges?

- Balancing the levy with ongoing compliance costs and ratepayer expectations.
- Ensuring levy costs are transparently passed on to ratepayers without diminishing public confidence in our compliance efforts.

Q10: When should the levy be reviewed?

We recommend a review after two years to assess financial and operational impacts, refine methodologies, and ensure alignment with sector goals. This would also ensure that it is in line with the next Long Term Plan.

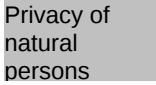
Conclusion

The Council acknowledges the intent of the proposed levy, however, does not support the principle of cost recovery for this regulatory function. However, if a levy is to be implemented, we must highlight the need for adjustments to ensure fairness, sustainability, and alignment with council operations.

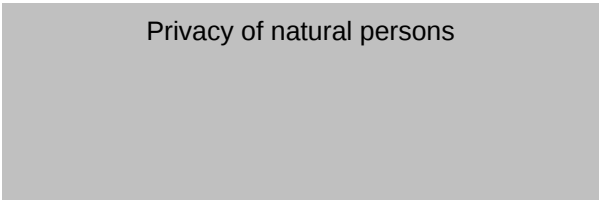
Key Recommendations:

- Gradually implement the levy and include co-funding options to ease immediate financial pressure.
- Transition to a performance-based model reflecting compliance and regulatory needs.
- Reward compliance through reduced levies or rebates.
- Enhance transparency with clear fund allocation and preparatory cost reporting.
- Align payment options with council budget cycles.
- Commit to a review after two years to address unintended impacts and refine the levy framework.

Thank you for the opportunity to provide this submission.

For any clarification on points within this submission please contact , Principal Advisor Strategic Policy – 

Yours faithfully,



Brent Smith General Manager City Infrastructure