

5 February 2025

To the Ministry of Business, Innovation and Employment

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This submission is from the Hawke's Bay region, from the Chief Executives of Wairoa District Council, Napier City Council, Hastings District Council, and Central Hawke's Bay District Council.

The focus of our submission is around:

- The apportionment of the levy, in particular the implication for rural communities, and
- The timing and phasing of implementing these changes

LEVY STRUCTURE:

In general, we support the establishment of a water services economic regulatory regime for all water services and support the proposed levy model to recover the Commission's costs of performing their functions, powers and duties under the Commerce Act.

However, we have identified some areas around design and implementation of the levy, set out below, that we request be considered during the finalisation of the levy.

LEVY DESIGN:

In general, we support the preferred option of a flexible and staged approach, with costs relating to a particular regulatory tool being recoverable from those regulated suppliers subject to that tool.

We agree with the principle of 'regulated suppliers' paying for the levy. However, with the funding allocation model that apportions the cost by population and the initial misalignment between cost information and councils' regulated budgeting processes, councils will have to raise unbudgeted loan funding to cover it that will not be recouped from service users. Given this, we suggest that the levy implementation should be delayed until the 2026/27 financial year (covered again below in 'Levy Implementation').

In addition, we suggest that Crown supplies serving sufficient population are subject to the economic regulation regime as regulated suppliers.

LEVY APPORTIONMENT:

As a region, we are concerned at the proposed apportionment approach based on a per-person charge. We have identified alternative approaches that could be considered instead.

The current proposal of using census data is not an equitable representation of regulated supplied service – in particular for rural and provincial councils where many people are self-supplied for drinking water and/or wastewater. This would see councils paying based on populations that are not all connected – including many single dwelling self-supplies that are not serviced by council, not billed for water services by council, nor directly regulated by either regulator.

For example, in our region, the Central Hawke's Bay District has less than 50% of all properties connected to municipal supplies, with only 4,400 water connections for the population of 16,600.

We acknowledge that there is no perfect data set, but instead of relying on census data and a per-person approach, we request the Authority consider alternative approaches:

- **Hinekōrako registers:** The Hinekōrako registers for both drinking water (the main area of work) and wastewater would be more appropriate. This would better align with the user pays principle that underpins the legislation, and would be much fairer for small, predominantly rural council areas. It would include those connected through a council organisation, but also those on regulated and Government supplies, e.g. rural schools.
- **Total water take:** Every Council has to report total water take as part of its consent conditions. This could be used as a proxy for dividing the Authority's cost, rather than population. This would mean that small districts with low water takes would not be penalized for having a large proportion of the district not connected to water services.

If the decision is to proceed with a population based approach, as progress is made toward volumetric charging there should be consideration for how apportioning, and therefore the on-charging by councils, can be aligned to usage as opposed to population based. Alternatively, we suggest work on a pathway that aligns more closely with the likes of electricity lines where it is based on the regulated asset base.

LEVY IMPLEMENTATION:

In general, we have not identified any specific issues around the proposed approach to invoicing.

However, as a region we are concerned about the timing of the implementation of these changes, which should work with the budgeting and long-term planning requirements councils are legislated to follow.

- **Timing of first levy payment:** Paying the levy from 1 July, 2025 will be problematic for councils, given there will be no ability to include the cost and recovery mechanisms in budgets for that year with no information available during budget preparation. If there isn't certainty on the levy value prior to planning and budget documents being completed and budgets prepared, we won't be able to accurately pass on the costs to service users. Therefore, unless the information is provided to councils by the end of March 2025, we suggest the levy should be delayed until the 2026/27 financial year.

- **Review periods:** We strongly support aligning the levy periods with councils' Long-term Plan cycles, so that certainty over levy values can be built into long term budget documents. If this is not in alignment, it would make cost recovery more complex and challenging for councils.

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