

Submission information

(Please note we require responses to all questions marked with an *)

Release of information

Please let us know if you would like any part of your submission to be kept confidential.

☐ I would like my submission (or identified parts of my submission) to be kept confidential, and **have stated below** my reasons and grounds under the Official Information Act that I believe apply, for consideration by MBIE.

I would like my submission (or identified parts of my submission) to be kept confidential because
[Insert text]

1. Personal details and privacy	
1.	I have read and understand the Privacy Statement above. Please tick Yes if you wish to continue* [To check the boxes below Double click on box, then select 'checked'] ☒ Yes ☐ No
2.	What is your name?* Anastasia Bremer, Senior policy analyst
3.	Do you consent to your name being published with your submission?* ☒ Yes ☐ No
4.	What is your email address? Please note this will not be published with your submission.* Privacy of natural persons
5.	What is your contact number? Please note this will not be published with your submission.* Privacy of natural persons
6.	Are you submitting as an individual or on behalf of an organisation?* ☐ Individual (skip to 8) ☒ Organisation

7.	If on behalf of an organisation, we require confirmation you are authorised to make a submission on behalf of this organisation.
	☒ Yes, I am authorised to make a submission on behalf of my organisation
8.	If you are submitting on behalf of an organisation, what is your organisation's name? Please note this will be published with your submission.
	Southland District Council
9.	If you are submitting on behalf of an organisation, which of these best describes your organisation? Please tick one.
	☒ Territorial authority ☐ Regional council ☐ Existing regulated supplier under the Commerce Act 1986 ☐ Consumer organization ☐ Non-governmental organisation ☐ Academic Institution ☐ Central government ☐ Iwi, hapū or Māori organisation ☐ Academic/Research ☐ Other. Please describe:

Responses to questions

The Competition Policy team welcomes your feedback on as many sections as you wish to respond to, please note you do not need to answer every question.

Part 1: Levy structure

1.

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 2025 onwards from regulated water services suppliers, excluding litigation and Crown Monitor costs for Watercare? Please provide reasons.

Southland District Council believes the proposed levy will disproportionately impact smaller, rural communities with lower populations, who have less capacity to absorb additional costs. This is the most likely outcome for the majority of communities within Southland District.

Whether water is provided by water service providers or council-controlled organisations, the levies are likely to be paid by ratepayers, thus increasing user costs, where the intent of water services reform was to prevent increase in costs (alongside improvement of services).

This is almost double taxation, likely to create inequities within communities and quite different to how regulation is usually funded (via tax). Preferably, there should be no levy, as central government should use tax money to pay for these services.

A population-based levy is unfair when over 50% of our ratepayers/population are not receiving a water connection. Charging on a population basis means local authorities like ours will subsidise city populations who are 90 or 100% connected to water services.

Further, this metric is not provided by councils and is not always accurate through the Population and Dwellings statistics. It also fails to account for seasonal fluctuation in users – particularly important for areas that experience peak usage with an influx of tourists not usually resident.

The protection around preventing overcharging already exists within the Local Government Act 2002 (Part 7). The economic regulatory function should be provided within Taumata Arowai, the existing regulatory body, rather than separately by Commerce Commission. Incorporating water services structures into the preferred regulatory approach and enforcing this change will create tension between providers and the Commission, as it has in previous control setting cases.

It should be noted that having a separate economic regulator does not prevent costs from increasing and does not necessarily ensure costs will be affordable across the board and over the long term – the increased cost of electricity being a clear example (due to investment in national and local lines infrastructure).

Part 2: Levy design

2.

What are your views on the proposed levy design?

The proposed levy design provides inadequate information on which activities for which a levy is payable will be applicable to which organisations in the future.

With the indicative costs covering only the core regulation of water services, there could be possible future financial burden of compliance costs as additional tools outside of core regulation are added.

While this approach is fiscally neutral for central government, it places burden on ratepayers (via suppliers) who are already paying tax to fund Taumata Arowai. The cost recovery is capped at an amount that would be feasible for central government to cover from taxation, rather than passing this cost on to service providers (and ultimately users).

3.

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.

The levy is an unbudgeted and unexpected expense that doesn't fall within councils' planning timeframes. A regulatory period could vary from 3 to 6 years, and there is no requirement these align with Council long term plan setting. This creates risk that other planned and budgeted works remain incomplete to fund regulation.

4.

Do you have any comments on how the levy design could be improved? Please provide reasons.

Cost recovery should be sought wholly from central government (tax), rather than through a levy.

In failing that, we recommend that the levy design be adjusted to account for regional variations, including the higher per-capita costs of delivering water services in rural areas.

Part 3: Levy apportionment

5.

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

Council does not support the sole use of population-based apportionment as it does not adequately account for the different circumstances of 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 seasonal loading. Further, this metric is not provided by councils and is not always accurate through the Population and Dwellings statistics (Census stats).

The justification for population-based apportionment suggests current information from other councils across New Zealand may be inadequate to base the levy apportionment on connections, serviced population, or water volume take/use. However, these metrics are available and measurable for this council, and it is likely they are available across several – particularly those with metered water.

6.	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.
	In its analysis of the proposed levy, the Crown stated that for “rural areas where some households self-supply their drinking and wastewater, the impacts on the households that are directly connected to and directly charged for water services will be greater, (but still small relative to the costs of water services)”. While the indicative levy cost of \$1.30 per person per year may appear modest, it may not accurately reflect the financial burden on rural communities with extensive infrastructure needs. As a majority of the households in our region self-supply, the burden of cost is on a much smaller population – which could significantly drive costs upwards. This does not align with making water services more affordable (in either the short or long term) and does not align with central governments direction that local government should be stabilising rates. Smaller rural water suppliers will struggle to absorb/distribute the levy costs compared to larger urban suppliers, leading to more significant impact on water affordability – at odds with the intent of the water services reform. So while costs may be “small relative to costs of water services” it is more likely that this is a comparison to a larger, urban supply – and rural ratepayers/service users will experience a great burden.
7.	Do you have any comments on alternative options to apportion the levy? If another option is preferred, please provide reasons.
	Cost recovery should be sought wholly from central government (tax), rather than through a levy. If this is not an option, costs should be recovered partly through central government as well as a levy, where the levy apportionment is met through a mixed model of fixed and variable charges that reflect both the nature of the services being completed and the geographic area in which they are being provided (i.e. fixed where the service is largely the same across all councils (information disclosure)). A sliding scale approach, based on the financial capacity of water service providers, would promote fairness and equity in the levy’s application.

Part 4: Levy implementation

8.	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?
	Imposing the full costs of the Commerce Commission's economic regulation from 1 July 2025 falls outside of councils' planning timeframes. This creates risk that other planned and budgeted works remain incomplete to fund the regulation. There are other costs outside of levies that councils need to respond to, again adding unplanned and unbudgeted costs. The timing is at odds with council process and does not contribute to ease of doing business. Both Taumata Arowai and the Commerce Commission are consulting on their associated levies at a time where most councils are either closed over the New Year, or at the very least are on skeleton staff. The levies will not be finalised until mid-2025. It is challenging to meet the timeframe to allocate these large sums into financial budgets so late in the process, particularly given the council processes that need to occur for full financial transparency for our ratepayers.
9.	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?
	Council is concerned about the potential financial strain on smaller water service providers. If a levy is to be implemented, to minimise financial and operational disruption, we recommend: • implementing a phased levy contributions, providing councils with adequate time to adapt their budgets and processes, or • exemptions for providers with limited revenue. A trial phase or pilot program would allow for adjustments to the levy design based on real-world data before full implementation.
10.	Do you have a preference for when the levy should be reviewed next? If so, why?
	Council seeks clarity on whether levy costs are expected to increase over time and how such increases will be communicated and justified. Council also emphasises the need for ongoing consultation with local governments to refine the levy design and ensure it remains fit for purpose. The first review of the levy should happen before Water Service strategies need to be set, mainly to reset the review periods for alignments with future planning cycles, especially with the Water Service Strategy. This would be to the advantage of all councils, enabling them to realistically respond to the regulatory activities. If the levy is to be reviewed after two years, costs are likely to increase as additional regulation is introduced (such as price-quality regulation). This may result in a significant increase, rather than being potential scaled over time.

General Comments:

- **Council recommend cost recovery is sought wholly from central government (tax), rather than through a levy.**
- If a levy is to proceed, Council recommend the levy design be adjusted to account for regional variations, including the higher per-capita costs of delivering water services in rural areas.
- A balanced approach is required to prevent rural communities from subsidizing urban areas with larger, more efficient infrastructure networks.
- Council propose a mixed levy model, combining a fixed base levy to cover general costs and a variable component reflecting population, geographic size, or network complexity.
- To ensure accountability and value for money, Council request a detailed cost breakdown of the Commerce Commission's activities funded by the levy.
- Council recommend that the Commerce Commission publishes annual reports demonstrating how levy funds are allocated and the tangible regulatory outcomes achieved.
- It is crucial that the expected benefits of the Commerce Commission's regulatory activities, such as improved service quality and infrastructure resilience, are clearly articulated and measurable.
- Council request assurances that the regulatory framework will align with the specific needs and challenges of rural water providers in Southland.
- Council encourage MBIE and the Commerce Commission to provide resources, such as training and funding support, to help smaller councils adapt to the new regulatory environment.