Te Kaunihera o
Te Awa Kairangi ki Uta
Upper Hutt City Council

24 January 2025

Ministry of Business Innovation and Employment (MBIE)

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Proposed levy to recover Commerce Commission costs of regulating water services

Upper Hutt City Council welcomes the opportunity to submit on the proposed levy to recover Commerce Commission costs of regulating water services.

The delivery of safe, reliable drinking water, wastewater and stormwater services for current and future generations is contingent on cooperative working relationships between local government, iwi, and our partners in central government.

We note that there is an inherent risk with tight consultation and submission periods for matters of importance to inadvertently be missed.

Our Council

Upper Hutt City Council is responsible for the largest geographical district in the Greater Wellington region. The district provides a significant proportion of the fresh water that supplies the region, both as a catchment area and source, and much of the water storage, treatment and distribution infrastructure.

Te Awa Kairangi (the Hutt River) and its tributaries catch and transport the largest single volume of stormwater in the Wellington region and provide recreation for our residents and visitors to the region.

General comments

1. Council notes that the Commerce Commission seeks to equip the Commission with a range of "tools to promote sufficient revenue recovery, and efficient investment and maintenance so that water services meet regulatory requirements and are delivered at a quality that communities expect".

2. Whilst cost recovery as a principle is understood, the proposals do not appear to consider the resource implications of setting up processes to support cost recovery by water service suppliers, or that 1 July 2025 does not provide adequate time to consider how the levy should be charged. This appears to contradict the principle of efficient investment (point one).

3. The fact sheet provided to support consultation states that "Water services suppliers will collect the levies from users. It will be up to water services suppliers to determine how best to recover the levy costs from consumers, for example, through rates or water charges, and how best to ensure these costs are recorded (such as including levy charges as an explicit line in rates bills)".

4. The proposals fail to provide clarity on who the 'water supplier' is, for example under the current service delivery model is this Wellington Water Limited (WWL) or Upper Hutt City Council (UHCC) in this case, Wellington Water supplies the service, but rates are collected by UHCC.

5. The proposed levy has also come at a time when our rate payers have already seen a significant increase in costs and rates and, therefore, any further additional costs imposed will be a further burden to both ratepayers and Council in already financially constrained environment.

6. Ratepayers are likely to see the additional levy as a new Council rate. Council will need to be supplied with rational for the levy to enable the call centre to explain the reason and purpose of the levy to enquiring ratepayers.

7. There appears to be a lack of consideration of how services will be provided, and regulation will take place following the implementation of future models of water delivery, which will vary significantly in scale and population served.

8. The relevant documents included as part of the consultation also do not appear to provide evidence to support the $6.5m forecast cost estimate for the Commerce Commission undertaking regulatory requirements, instead it appears to use the $6.5m cap by the Crown as a proxy for setting the levy charges.

Consultation questions

9. *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.*

10. It is noted that 100% of cost recovery is the preferred option based on other cost recovery rates for other regulatory functions performed by the Commerce Commission, but no further information is provided on why this should be the case for water regulation, or on alternative options beyond 'the exacerbator should pay'. Therefore, it is difficult to provide a meaningful response to this question.

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

12. UHCC is concerned that whilst many regulatory activities do not appear to incur costs to 2029 and costs are capped at $6.5m the flexible approach proposed for the set of regulatory tools and the fact that the $6.5m cap could be changed following review is of concern. There appears to be no commitment to consulting on any rising costs as a result of the review, and so cost per person or household may be higher than identified and commitment has only been made to charging a rate of $1.30 per person in years one and two.

13. *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.*

14. Beyond the concerns raised regarding resources and increasing costs to rate payers, it is not possible to provide an assessment of the nature and extent of impacts in the time available. It is suggested that prior to any levy proposals are implemented the Commerce Commission undertake detailed engagement with Local Authorities and water industry representatives.

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

16. UHCC recommends consideration of an apportionment model for the levy. A combination of fixed charge and a variable component to the levy. This would help avoid cross subsidisation of those levied and aligns with a public good element and the equity principle of user pays.

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

18. At first the apportionment seems to be equitable, however, it only appears to be a levy based on an assumption that 2.7 people reside in a household. It does not consider that some activities may be disproportionate service users e.g. residential care homes and commercial activities.

19. *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.*

20. As identified above, beyond identifying that there will be resource implications and that Local Authority rating systems are not set up to levy in such a way. It is not possible to provide an assessment of the nature and extent of impacts in the time available.

21. Local Authorities currently has no ability or system available to levy on a population basis. Local Authorities rate properties charging the property owner, Local Authorities do not rate individuals, users or occupants. Accordingly Local Authorities have no current ability to collect levies from individuals in a practical, equitable or auditable manner.

22. *Do you have any comments on alternative options to apportion the levy? If another option is preferred, please provide reasons.*

23. If the levy is implemented this should be based on the existing rating methodology employed by Local Authorities. This is particularly important given the suggested implementation date aligning with the rating year (1 July 2025).

24. *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?*

    As identified above, Local Authorities are not sufficiently resourced nor do they have the systems to incorporate new collection processes in the time available.

25. *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?*

    Yes, see previous answers. Additionally setting variable charges through a levy methodology and only appearing to fix costs in the first two years provides uncertainty and does not allow for sufficient Long Term Planning, particularly given that the funding cap set by the Crown may increase over time.

    Local Authorities set a general rate and various targeted rates. Waters are rated as a targeted rate.

    Local Authorities currently target rates ("ringfence") for each of the three water activities in a different way. The targeted rate is based on different criteria. Wastewater for example is based on pan charges with a further differential applied and dependent upon residential and commercial property status.

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

27. If the levy is introduced reviews should take place no more than every three years and align with the local authorities' long term planning cycle. This would provide an established process for any changes to be consulted upon and be undertaken in sufficient time to inform Long Term Plan processes (undertaken every three years generally commencing around September/October of the year prior to the financial year it will take effect).

Conclusion

Thank you for the opportunity to submit.

Regulated water services delivery in support of implementation of the Government's *Local Water Done Well policy* is a major and generational change for all New Zealand.

It is important that we collectively get it right to ensure a workable and equitable system for future water services.

Yours sincerely,

Privacy of natural persons

Geoff Swainson
Te Tumu Whakarae | Chief Executive