



Hamilton City Council – Staff Submission

Consultation on the Water Services Authority – Taumata Arowai Levy for 2025 – 2028 (October 2024 Discussion Document)

Taumata Arowai

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 # 785

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 Water Services Authority - Taumata Arowai (the Authority) on its **Consultation on the Water Services Authority – Taumata Arowai Levy for 2025 – 2028 (Discussion Document on a Proposed Levy for Council Drinking Water Supplies and Network Operators Under the Water Services Act 2021)**.
3. Staff support the Authority in its current and future functions as the water services regulator, and understand that the Authority plays a critical role in Local Water Done Well by regulating drinking water suppliers to ensure they meet quality standards and providing oversight of the environmental performance of water services networks.
4. 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

5. **Introduction**
6. ***What are the most important issues that you/your organisation believes should be addressed by the Authority?***
7. Staff recognise the Authority's work to ensure the safety of water supplies across the country and encourage the continuance of addressing issues within this space.
8. Staff also identified the wastewater performance measures as important work for the Authority, especially in ensuring there is alignment with other regulatory reporting requirements.
9. ***How would you like the Authority to engage with you/your organisation?***
10. Staff always appreciate being able to have more direct engagement with the Authority through video conference meetings or in-person meetings to discuss submissions, regulatory requirements, or issues that have arisen.
11. Staff understand this type of engagement can be difficult due to the number of suppliers regulated by the Authority, but appreciate any and all opportunities to provide thoughts or feedback, whether written or verbal.

12. Part 1: Levy Structure

13. *Do you/your organisation have views on the preferred option detailed in the Levy Structure section of the discussion document?*
14. Previously the public health/good impact of drinking water compliance has been funded by the Crown through the Ministry of Health. Staff understand that the Water Services Act 2021 enables the Authority to cover “any or all of the costs” of its regulation through a levy, and that \$4m is being transferred from Health to form the proposed Crown contribution, but are concerned that the proposed Crown contribution does not adequately cover activities that the Authority delivers that are of significant public good.
15. Staff understand the reasonings supplied by the Authority in its discussion document for its preferred option, but support the alternate option that follows Treasury’s Guidelines for Setting Charges in the Public Sector. The larger portion of the Crown contribution in this option can more adequately cover the public good aspects of regulation, and can provide some further Crown subsidisation for the private suppliers that are being cross-subsidised by councils.
16. Staff also noted that there is minimal mention of central government-regulated suppliers such as the Department of Conservation, Department of Corrections, and the Ministry of Education. Clarification is needed as to whether these organisations will also be levied for their regulation or if the Crown contribution is intended to cover their expected costs. Although territorial authorities are responsible for the majority of the country’s supplies, these Crown agencies are responsible for hundreds of supplies, and this should be reflected and/or clarified in the distribution of costs.

17. *Do you/your organisation agree with the focus, in the first levy period on councils?*

18. Staff understand the initial focus on councils, as the suppliers to the majority of the country’s population, in the first levy period.
19. Staff also acknowledge territorial authorities’ interests in seeing the smaller private suppliers are well regulated, but do not support the extent of cross-subsidisation by councils for these suppliers.

20. Part 2: Levy Design

21. *Do you/your organisation have any comments on the proposal to separate levies for drinking water, wastewater, and stormwater?*
22. Staff support the preferred option for separate levies for drinking water, wastewater, and stormwater.
23. Staff also agree with the proposed weighting, but note that future reviews should reflect the distribution of costs for these activities at the time. It would be helpful if the Authority could provide a forecast/indication of how this distribution may change over time to include its future functions, especially within the wastewater and stormwater space, as well as the National Engineering Design Standards proposed in the Local Government (Water Services) Bill 2024 so they can be included in Water Services Strategies.
24. *Would splitting the levy between drinking water, wastewater, and stormwater result in any benefit for your organisation, or create any barriers (whether now or in the future)?*
25. Under legislation, the Government is requiring councils to ringfence the cost of individual waters to be transparent with customers. The Authority splitting its levy into the individual water activities helps staff more easily comply with those requirements and split the activities into the appropriate cost proportions for the Authority’s regulation.

26. Part 3: Levy Apportionment

27. *Do you/your organisation have any comments on the preferred option of an apportionment approach of charging the levy on a per-person rate?*
28. 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.
29. Although staff do not support the sole use of population-based apportionment, staff acknowledge that current information is inadequate to base the levy apportionment on connections, serviced population, or water volume take/use.
30. Staff prefer a mixed charge model, with some charges being a flat rate per entity and others being based on population, connection, or volume metrics.
31. 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.
32. 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.
33. 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.

34. *Would the proposed apportionment approach create any challenges for your organisation?*

35. 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.
36. With a combined total indicative cost of \$1,092,965 (incl. GST) for both levies from the Authority and the Commerce Commission, 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.

37. Part 4: Levy Implementation

38. *Do you/your organisation see any issues with your implementation of the levy (receipt of invoices, payment, and passing the cost on as you may determine)?*

39. Due to the significant cost implications of the levy, staff challenge the implementation of the Authority's cost recovery through a levy from 1 July 2025.
40. 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 expected costs of the Authority for its 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.

41. These risks can be mitigated through staged levy implementation that allows for an appropriate transition period of 1-2 years, where a smaller portion of the Authority'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 and their customers to absorb the new costs, and allows for possible alignment with the Water Services Strategy planning period, once full costs are implemented.

42. Alignment with the Waters Services Strategy allows for further transparency with our communities regarding the costs of the services going forward.

43. Considering that both the Authority and the Commerce Commission are consulting on their associated levies at this time, which will not be finalised until mid-2025, staff question the reality of meeting the timeframe to allocate these large sums into financial budgets so late in the process. Our Annual Plan processes do not provide us with the time and detail required to incorporate significant cost changes requested by Government.

44. *Would the proposed implementation approach create any challenges for your organisation?*

45. As above.

46. *Do you/your organisation have a preference for when the levy should be reviewed next?*

47. Staff would prefer that the levy be reviewed before the Waters 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 limited information, but staff suggest that the first review does not need to be fully in-depth and could essentially be used to reset the review periods in line with future planning cycles, especially with the Waters Services Strategy.

48. 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 this introduces a level of uncertainty and risk that is unproductive and inefficient in the management of water services.

49. General Comments

50. Staff noted that there are cost implications outside of the levies themselves due to the changes Hamilton City Council will need to make to respond to activities, such as the increased need for information disclosure. These costs are also unplanned and unbudgeted. 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.

51. Staff also note that there are 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

52. Should Taumata Arowai 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.
53. Hamilton City Council representatives would welcome the opportunity to discuss the content of this submission in more detail with Taumata Arowai.

Yours faithfully



Lance Vervoort

CHIEF EXECUTIVE

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