

# Stage 1 and Stage 2 Interim Cost Recovery Impact Statement

Proposal for Taumata Arowai—the Water Services Regulator (the Water Services Authority) to charge 3 separate levies to drinking water suppliers; wastewater operators; and stormwater operators.

## Agency Disclosure Statement

1. This Interim Cost Recovery Impact Statement (CRIS) has been prepared by the Water Services Authority (the Authority) with input from the Department of Internal Affairs. It has been developed to analyse and support the proposed options for consultation relating to the promulgation of levies to be charged by the Authority.
2. The Authority was established in 2021. There are no levies in place and the Authority is currently mostly Crown funded. The levies are to recover some of the Authority's operating and capital costs from targeted drinking water suppliers, wastewater network operators and stormwater network operators over an initial levy period, after which a funding review will be undertaken. This recognises that there is considerable uncertainty at present as Local Water Done well is developed and rolled out over coming years. This may result in material changes to the Authority's costs and the basis upon which levies are apportioned, as well as the parties who will be responsible for paying levies.
3. Notwithstanding the status of the options as proposals under targeted consultation, it is necessary under Treasury guidance to provide an initial CRIS. A full analysis must be provided at the point at which any recommendations are made to the Minister and Cabinet, after the consultation process is completed and submissions analysed.
4. This initial CRIS covers stage 1 and 2 of the CRIS requirements and takes the general form of a final CRIS but given the stage at which it has been prepared, cannot fully cover all matters. Further, this interim CRIS has been prepared on the basis that all of the recommended proposals will be adopted and in full. Any deviation from what is recommended post-consultation will be reflected in the final CRIS. This CRIS and the final CRIS will be released publicly.
5. The options analysed and the preferred design reflect a range of factors, which are presented in this CRIS. These include:
  - Funding required currently for the Authority to deliver its existing functions.
  - Government expectations for the Authority to expand its functions and responsibilities to give effect to and support wider changes in the water sector, especially Local Water Done Well.
  - Savings that have been achieved to date.
  - The cost implications arising from the required expanded functions, which takes into account reprioritising current resources that are no longer needed under Local Water Done Well.
  - Precedents with regard to levy design across the public sector.
  - Preferences that have been expressed by the Minister for Local Government.

6. We have also considered the benefits to the local government sector (and wider) arising from our existing and expanding functions. We have had regard to Treasury guidance on levy design and considered alternatives, such as a fully Crown funded model, a fees based revenue model as well as various scenarios for a Crown/Levy model. We propose to regularly review funding arrangements. The review period will be tested through consultation as there are a number of considerations around the implementation of Local Water Done well that will impact the optimal review timeframe.

## **Constraints**

### *Limited data*

7. Many of the standards and performance measures that currently apply to water services are new, with both the Authority and suppliers/network operators working towards establishment and compliance under the Water Services Act. As such, there is a limited amount of data on supplier and network operator compliance and performance, as well as limited data to underpin the cost to the Authority of performing the full range of its functions. This is the most significant constraint in the preparation of this analysis. It has also been noted in a recent Auditor-General report that councils have poor data about their performance. This has been the experience of the Authority too through required reporting from drinking water suppliers and network operators.
8. This constraint creates uncertainty with regards to how much support the Authority will need to provide to the sector to assist it to achieve the expected performance. If sector support requirements necessitate higher resource input from the Authority than anticipated, this will be managed via the Authority's internal allocation and prioritisation decisions. This will be further considered at the time of the first funding review and in that scenario, a revenue increase may be sought. Equally if less resource is required than anticipated this will be addressed through retaining revenue in the proposed memorandum account and reflected through the levy proposal for the second term of the levies.
9. No increase in baseline funding may be a constraint too, but this will be monitored through regular reviews as part of the funding review cycle.

### *Uncertainty of government policy impacts resulting from Local Water Done Well*

10. On 8 August 2024 the Government made announcements on how it will implement Local Water Done Well. This includes an expanded range of water services delivery models for councils to choose from. This includes new water organisations that can be owned by councils and/or consumer trusts. They are intended to have the flexibility to be financially independent from their council owners from a credit rating perspective. Councils may design their own alternative arrangements, as long as the arrangements meet minimum requirements.

11. The Authority is operating in the context of a rapidly changing sector and significant uncertainty in terms of how councils will organise their water services in response to Local Water Done Well. The timeframes involved mean that some legislative and regulatory settings and policy decisions that could impact on the Authority and its functions may change during consultation or following the establishment of the levies. We also note the revenue pressure that councils are under and the large investments many need to make. These factors mean that councils may simultaneously be resource limited and may need to make large investments in water infrastructure. The nature of those investments will be critical to the quality and performance of water services. The Authority has an important role with respect to working with local government on their proposed investments to ensure they will perform and to help minimise the cost of the investments, by for example developing more standardised approaches and designs.
12. For the Authority this will mean some of the activities we currently undertake will reduce e.g. many drinking water suppliers serving 25 or fewer consumers will no longer be subject to the Water Services Act. However, some activities will need to expand. We will engage more actively with mixed-use rural schemes, larger drinking water suppliers and network operators, and proactively develop more regulatory solutions to make compliance easier and cheaper. This reflects that these supplies and networks represent a higher risk to public health, have better known risk profiles and greater availability of data.
13. There are new functions proposed for the Authority (e.g. reviewing stormwater risk management plans). Given legislation has yet to be introduced, the scope and nature of any new functions and associated activities is currently difficult to size and therefore the associated budget necessary to undertake these activities is hard to determine with precision. Our preliminary view is that some of these activities will be more resource intensive and therefore more costly for us to undertake e.g. more proactively engaging with suppliers, than our current regulatory approach. To address this, some resources will be reprioritised, or the rollout of some functions deferred, for example the introduction of an authorisations regime.<sup>1</sup> Once we have more certainty, we will work with the Department of Internal Affairs and the Minister to confirm the preferred approach to manage any cost pressures.
14. It is also important to note that local government organisations are similarly operating in an environment that may be subject to significant change in the future. This will have implications for who will be liable for payment of the levies as, for example, councils must consider if and how to amalgamate services and what services to retain versus shift to council controlled organisations (CCOs) or community trusts, either singly or in collaboration with other councils. Consultation will seek feedback on the challenges and options councils and their subsidiaries consider may work, including the critical choice of who the levies will apply to.

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<sup>1</sup> The Water Services Act provides for an authorisation framework to be developed and implemented through regulations. Once in place, this framework will introduce requirements relating to the training, skills, or experience needed by operators of drinking water and wastewater networks, to help ensure these networks are operated safely. The Act provides discretion about how the framework should be designed and delivered, and details will be set out in the regulations.

### *Budget uncertainty*

15. Cabinet is to consider a recommendation for the Authority's budget to be fixed at \$25.3m p.a. for the next three financial years. Cabinet will also consider the Minister for Local Government's preferred recommendation for the Crown's total contribution to this amount to be \$4.642m p.a, based on existing funding to the Authority transferred from Ministry of Health of \$4m p.a. together with the Public Sector Pay Adjustment of \$0.642m p.a. This recommendation is subject to Cabinet consideration and approval. The amounts set out in this CRIS are based on these recommendations and are therefore indicative.
16. As part of the proposed first review of the levies, the Authority will engage with water service providers and network operators. Engagement will ascertain whether the levels of certain services provided by the Authority (e.g. education, advice, leadership and capability building, etc) are adequate to meet sector needs.

### *Consultation*

17. The Authority will undertake consultation with affected territorial authorities, their council controlled organisations that provide water services and the Wellington Regional Council as a bulk water supplier over October and November 2024. A number of questions will be posed to seek specific feedback on the levy design, the levy apportionment and levy implementation. Feedback from consultation will be taken into account for the final CRIS and presentation of the final levy proposal to the Minister of Local Government's consideration.

Sara McFall

Head of Systems, Strategy and Performance



8 October 2024

## Executive summary

18. The Authority is New Zealand's water services regulator established as part of the response to the Havelock North campylobacter outbreak in 2016, which led to an estimated 8,000 infections and was linked to four deaths following contamination of drinking water.
19. The Authority became fully operational in its drinking water functions with the enactment of the Water Services Act in November 2021. Its functions relating to wastewater and stormwater commenced in October 2023. Appendix 1 lists some of the activities of the Authority.
20. This CRIS presents our analysis around a number of factors relating to cost recovery and the introduction of levies:
  - The legislative basis for levies;
  - The rationale to introduce a cost recovery regime now;
  - Who is best placed to pay for the various functions and activities undertaken by the Water Services Authority and how much should be recovered from the sector vs Crown funding;
  - The prospects for ongoing Crown funding;
  - The best mechanism to recover costs (fees, charges or a combination);
  - Analysis of different approaches to apportion the levies and how costs would be allocated; and
  - How the levies could be implemented.
21. Other than a very small amount of revenue via fees, the Authority is presently fully Crown funded with an approved operating budget of \$25.3m p.a. for the 2024/25 financial year. Cabinet will consider a recommendation for the Authority's budget to be fixed at this amount for the next three financial years.
22. Cabinet will also consider a recommendation for the Crown's total contribution to this amount to be \$4.642m p.a, based on existing funding to the Authority transferred from Ministry of Health of \$4.0m p.a. together with the Public Sector Pay Adjustment of \$0.642m. This recommendation is subject to Cabinet consideration and approval. The amounts set out in this CRIS are based on these recommendations and are therefore indicative.
23. We have considered full Crown funding and full levy funding as alternative scenarios. However, application of Treasury Guidance suggests some 74% of the Authority's \$25.3m costs should be recovered from those who benefit from the Authority's services (e.g. consumers of water services). The remaining 24% (\$6.5m) would be Crown funded.
24. This approach reflects that:
  - All New Zealanders are consumers of water service and will pay for the Authority's costs either as taxpayers or consumers;
  - Government is purchasing a service relating to Ministerial servicing, which is most appropriately paid by New Zealanders as taxpayers rather than consumers of a water service;
  - The benefits of the Authority's work are accrued by consumers of water services; and
  - Recovery of all costs via levies is more efficient than to recover costs from multiple source (i.e. levies and tax revenues).

25. However, as noted above, the proposal is to cap Crown funding at \$4.642m, meaning levy payers will subsidise the Crown's contribution to the amount of \$1.858m p.a.
26. The most administratively efficient means of recovering the sector contribution is likely to be charging councils, on the expectation that they will pass these costs on to beneficiaries through rates/targeted rates or water charges. It is recognised that it may not be administratively efficient for councils to distinguish between those ratepayers on self-supply and those who utilise council services and thus, there will be a degree of cross-subsidisation. We will test the implications of this for councils more fully through consultation.
27. Over time new water organisations will be established under Local Water Done Well, which will have a direct line of charging to consumers. The extent to which responsibility for levy payment may shift from councils to new water organisations will be further considered in the future.
28. The proposed levy design incorporates three levies charged separately for each of the three waters (drinking water, wastewater and stormwater). This reflects that the costs the Authority incurs differ depending on the nature of the water. This design also accommodates the possibility that under Local Water Done Well, a region could have different providers, for example, for drinking water, wastewater and stormwater.
29. We recognise that there is no perfect option to base the calculation of levies on, and choices around how local government implements Local Water Done Well in each region will impact on equity and efficiency.
30. However, we have recommended the levy calculations be based on a per-person charge linked to Stats NZ data on the population in each district, as this is likely to be the most equitable approach. This option may incur a degree of subsidisation for councils which recover costs through rates, rather than water charges, and it may not be administratively efficient to separate out levy costs from rates paid by those on self-supply. The rollout of Local Water Done Well will provide an opportunity to address this, for example, by providing improved information on consumers that may enable the levy to be better targeted.
31. We have considered four other options that we will seek feedback on via targeted consultation with affected suppliers and network operators before the end of 2024. However, these options are not preferred largely because there is insufficient and/or inconsistent data to enable the levies to be set in a way that is more efficient and/or equitable than the recommended approach.
32. We propose options for a first funding period of either one year or three years. These periods are designed to enable levies to be aligned to Council long-term plan updates. The Authority does not prefer a 1 year period on the basis that we do not envisage much will have changed in such a short period of time. While the intent would be for a first review after three years, we note that if there is material change the review could be undertaken sooner.
33. We will take feedback from targeted consultation into account and set out in the subsequent Cabinet papers seeking decisions on the design of the levies and rate(s). A final CRIS will be completed at that time.

## Status quo

34. The Authority is New Zealand's water services regulator established as part of the response to the Havelock North campylobacter outbreak in 2016, which led to an estimated 8,000 infections and was linked to four deaths following contamination of drinking water.
35. The Authority became fully operational in its drinking water functions with the enactment of the Water Services Act in November 2021. Its functions relating to wastewater and stormwater commenced in October 2023.
36. Its functions and powers are set out in the Taumata Arowai—the Water Services Regulator Act 2020 (2020 Act) and the Water Services Act 2021 (2021 Act). The 2020 Act specifies that the Authority has the objectives to:
  - protect and promote drinking water safety and related public health outcomes; and
  - effectively administer the drinking water regulatory system; and
  - build and maintain capability among drinking water suppliers and across the wider industry; and
  - give effect to Te Mana o te Wai, to the extent that Te Mana o te Wai applies to the functions and duties of the Authority; and
  - provide oversight of, and advice on, the regulation, management, and environmental performance of drinking water, wastewater, and stormwater networks; and
  - promote public understanding of the environmental performance of drinking water, wastewater, and stormwater networks.
37. On 8 August 2024 the Government made announcements on how it will implement Local Water Done Well. This includes an expanded range of water services delivery models for councils to choose from. This includes new water organisations that can be owned by councils and/or consumer trusts. They are intended to have the flexibility to be financially independent from their council owners from a credit rating perspective. Councils may design their own alternative arrangements, as long as the arrangements meet minimum requirements. Through Local Water Done Well, the Government is also establishing a new economic regulation regime which will be implemented by the Commerce Commission. The roadmap to implementation of Local Water Done Well can be found here [Local-Water-Done-Well-Implementation-roadmap-\(August-2024\).pdf \(dia.govt.nz\)](#) .
38. A number of changes to the Authority's roles and responsibilities are being considered as part of the upcoming Local Government Water Services Bill as a way to balance the cost of compliance against the outcomes sought.
39. The Authority's general functions include being primarily responsible for ensuring drinking water suppliers provide safe drinking water that complies with drinking water standards and rules, and that suppliers provide a sufficient quantity of drinking water. It also contributes to the progressive improvement of the environmental performance of water services networks – including drinking water, wastewater and stormwater networks – over time.

40. As part of the latter function, the Authority provides oversight of the environmental performance of water services networks through public reporting against measures, setting national standards for wastewater and stormwater networks, and implementing targets for network operators.

41. The aim of the proposals in this paper is to ensure there is a funding model for the regulation of water services that provides sufficient revenue to support the Authority’s functions, and that the costs of funding the Authority are paid by the most appropriate party. In developing options for the funding model, we have taken into consideration the direction of government policy in respect of Local Water Done Well. Local Water Done Well places decision-making and accountability for water services on local government or through it, to council controlled organisations or other organisational models.

42. The Authority is currently majority funded by the Crown, with a very small proportion of its funding received through fees charged for specific functions under the Water Services (Fees and Charges) Regulations 2021. For example, it charges fees for assessing exemption applications.

43. The Water Services Act 2021 enables regulations to prescribe levies to be set by Order in Council on the recommendation of the Minister of Local Government for the purpose of recovering **any or all** of the costs of the Authority that relate to the exercise of its functions, powers and duties. The levies may be payable by drinking water suppliers, wastewater network operators, or stormwater network operators.

44. Current Crown funding for the Authority is set out in the table below:

\$ millions	2024/25	2025/26	2026/27	2027/28 and outyears
[REDACTED]	[REDACTED]			
[REDACTED]				
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Funding available</b>	\$21.316	\$4.642	\$4.642	\$4.642
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
<b>Total Funding Available</b>	<b>\$21.316</b>	<b>\$16.272</b>	<b>\$16.272</b>	<b>\$16.272</b>
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
<b>Net Funding Available</b>	<b>\$21.316</b>	<b>\$14.365</b>	<b>\$14.365</b>	<b>\$14.365</b>

45. An operating budget of \$25.3m has been approved for the 2024/25 financial year. The shortfall of \$4m between Crown funding and the operating budget will be met through utilisation of the Authority’s existing reserves. Using reserves is a short-term solution and not a sustainable approach to ongoing funding for the Authority.



46. Going forward, the Authority’s regulatory approach will change in focus, with more resources required for activities such as engaging more actively with drinking water suppliers and network operators, and proactively developing more regulatory solutions for suppliers and network operators to make compliance easier and cheaper. There is some space for reprioritising current resources as some of the current activities cease to be required under Local Water Done Well e.g. regulating most supplies serving under a population of 25 people.

*Prior Year’s Funding Shortfall*

47. It was originally assumed that the levies would commence in 2022/23. This subsequently moved to 1 July 2024. To meet the funding shortfall of the levies not being in place, the previous Government agreed to provide an additional \$13.355 million over three years (2021/22 – 2023/24). This funding was to be recovered [REDACTED]

48. [REDACTED] If the funding shortfall is recovered through levies it would be equivalent to an annual incremental cost per person of:

Levies Based on 2023 Census Numbers	2025/26	2026/27	2027/28
Per person	\$0.38	\$0.38	\$0.38

49. If this cost is to be recovered through levies, it will be added on top of any other levies collected. Collection of these additional levies will not increase the Authority’s operating budget.

## Policy Rationale: Why a user charge? And what type is most appropriate?

*The authority to charge*

50. Section 201(1) of the Water Services Act 2021 provides that:

*The Governor-General may, by Order in Council made on the recommendation of the Minister, make regulations prescribing a levy for the purpose of recovering any or all of the costs of Taumata Arowai that relate to the performance or exercise of its functions, powers, and duties under this Act or any other enactment that is payable by 1 or more of the following:*

- (a) drinking water suppliers;*
- (b) wastewater network operators;*
- (c) stormwater network operators.*

51. Before setting the regulations for the levies, the responsible Minister must:

- *determine the costs of the Authority, including the costs of collecting the levies, to be covered by the levies; and*
- *request, and have regard to, advice from the Authority on the proposed levies; and*

- *consult the persons who will be affected by the levies, including drinking water suppliers, wastewater network operators and stormwater network operators.*

*Is cost recovery appropriate?*

52. In line with guidance from the Treasury, cost recovery proposals require consideration of both:

- who benefits from the outcomes sought from the delivery of services (i.e. who derives the direct benefit from, for example, an authorisation to undertake an activity), and
- whose actions or inactions give rise to the costs the Authority incurs.

53. In regard to the Authority's functions/services, drinking water suppliers and wastewater and stormwater network operators are direct service users (i.e. their businesses are directly impacted by the standards and reporting requirements the Authority sets and the compliance and monitoring activities it undertakes). In particular, consumers of drinking water are the ultimate beneficiaries of the Authority's functions/services.

54. The basis of cost recovery is that this should occur where it is administratively efficient to charge service users and beneficiaries for the costs their actions cause an agency to incur/the benefits the agency delivers.

*Why not continue full Crown funding?*

55. There is an argument that, given all water services users are also taxpayers, the Authority's costs could be fully funded by the Crown from taxation. This would avoid incurring administrative costs associated with collecting levies and lessen the financial burden on local government. However, the foundation of cost-recovery is that those who benefit from regulation should face the cost associated with those benefits as directly as possible. This ensures that price signals are felt by consumers and as such, consumers are more incentivised to scrutinise the behaviour of their provider.

56. It is also important to note that not all taxpayers receive services from regulated water service providers or network operators (i.e. some are on self-supply and are not regulated by the Authority). As such, full funding from taxation would entrench self-supply subsidisation of the benefits received by regulated water services consumers.

57. The Authority recognises that in cost-recovering from Councils, there is initially likely to also be a degree of cross-subsidisation. However, Councils have tools, such as targeted rates and water charges, that can be used to mitigate this. Future changes proposed by Local Water Done well will also address cross-subsidisation more fully in the medium term.

*Why not 100% recovery through levies?*

58. It is appropriate that the Crown contribute to some of the Authority's costs to pay for functions such as ministerial servicing, and services to non-levied parties. Beneficiaries of water services regulation have no control over these costs as they are a function to ensure New Zealand is well governed. It may, therefore, be inequitable for water services users to fund these activities.

### *Why partial cost recovery is recommended*

59. We have applied the Treasury's *Guidelines for Setting Charges in the Public Sector* in this CRIS to assess the economic characteristics of the Authority's services.

### *Who should pay for what in a partial cost-recovery scenario? - economic characteristics of the Authority's functions*

60. We have considered the legislative functions the Authority is required to perform and segmented the activities that deliver on these functions. To determine who should pay for what we have then assessed those activities against the Treasury framework for assessing the economic characteristics of activities based on:

- Is it excludable – can people be prevented from using it?
- Is it rivalrous – if one person uses the good, does it reduce other's enjoyment of it?

61. We note that our assessment of which services/functions should be recovered through levies versus Crown funded aligns with the approach taken by other agencies such as the Ministry of Primary Industries, the Ministry of Business, Innovation and Employment, the transport Crown Entities and the New Zealand Customs Service.

62. In summary, the majority of the Authority's services are 'club' goods, for example, drinking water suppliers are the only direct users of standards and rules set to ensure drinking water quality, as such, the use of standards are excludable to water organisations. However, the benefits of standards, being the quality of drinking water, are not rivalrous; that is, the enjoyment of quality drinking water by one consumer does not exclude another consumer from enjoying the same benefits.

63. Another example is that of the Authority's community engagement services. The service is used by suppliers/network operators and consumers of water services. However, the benefits of community engagement are not rivalrous in that a particular supplier or consumer being informed does not detract from another supplier or consumer also being informed.

64. Other examples of 'club goods' include compliance monitoring and enforcement, support to build capability in the sector, the delivery of guidance, the development of performance measures, etc.

65. The next largest group of services are those provided to support government. These services are 'public' goods. For example, the provision of policy and other support, enables Ministers to effectively govern. It is not possible to exclude those who reside in New Zealand from effective governance, nor does one person's enjoyment of the benefits of effective governance preclude another person also enjoying these benefits.

66. There are also activities that provide a 'private' good. This is because the use of the service is excludable, for example, a party seeking an exemption will utilise the Authority's services to assess and determine exemption applications. The benefits of a non-class exemption are also rivalrous in that it only enables the individual to undertake their activity, nobody else can leverage it. Other examples of private good services include registrations, accreditations, inspections, Drinking Water Safety Plan assessments, authorisations, etc. These services are excludable.

67. However, it is not proposed that the Authority recover the costs of private good services through direct fees at this time (other than those already provided for in the Water Services (Fees and Charges) Regulations 2021). This is because, given the newness of many of the services, there is presently little information upon which to base a fee or charge. Any new information gained by the Authority from future operations and service delivery will be used to inform the approach to the levies after the initial levy period. As such, it is proposed that these costs will be initially distributed across all service users/beneficiaries through the levies.

*Implications of applying the excludability and rivalry test*

68. Application of Treasury’s *Guidelines for Setting Charges in the Public Sector* results in an estimate of 74% of the Authority’s services being for a “club” or private benefit and thus paid by levy payers, with 26% being for a “public” or Crown benefit and thus paid by the Crown. Based on the recommendation to Cabinet of total funding to the Authority of \$25.3m p.a, this would result in a Crown funding contribution of \$6.5m p.a.

69. The recommendation to be considered by Cabinet is for total Crown funding to be \$4.642m p.a. This will mean that in contrast with an approach based on application of the Treasury guidelines, \$1.858m that would be Crown funded, will instead need to be funded by levies. This approach will result in the following split between Crown and levy funding:

	2025/26	2026/27	2027/28	Split
<b>Crown</b>	\$4.642m	\$4.642m	\$4.642m	18.3%
<b>Levies</b>	\$20.658m	\$20.658m	\$20.658m	81.7%
<b>Total</b>	\$25.3m	\$25.3m	\$25.3m	100%

*Limiting the application of the levies in the first period*

70. Consideration was given as to who the levies should apply to in the initial levy period. Options included: all drinking water suppliers and network operators, local authorities and council controlled organisations (CCOs) or local authorities, CCOs and government suppliers only.

71. For the first period, it is intended the levies be limited to drinking water suppliers and network operators that are local authorities, CCOs or other arrangements provided for under the Local Water Done Well policy. The specifics of how this would work will be explored during the targeted consultation. The levies will not be applied to non-local authority or Crown drinking water suppliers and network operators.

72. Local authorities, CCOs, and their subsidiaries serve a large majority of the population (approx. 84%) as drinking water suppliers and manage most reticulated water services networks.

73. Another reason that non-local authority drinking water suppliers are not proposed to be levied during the first period is that the Authority's key focus will be on local authorities. This is because many non-local authority suppliers are currently not registered with the Authority and are not required to be until November 2025.<sup>2</sup> These drinking water suppliers are also not required to be compliant with most other requirements of the Water Services Act 2021 and its secondary legislation, including drinking water standards, until November 2028.<sup>3</sup> To note, under Local Water Done Well, the regulatory threshold is intended to change, which will potentially rule out a significant amount of very small supplies that would be subject to direct regulation<sup>4</sup>.
74. In these circumstances, we have assumed that the cost of setting and administering a levies regime directed at non-local authority suppliers may be more than is collected in levies. It does therefore does not meet a number of the guiding principles outlined below. This assumption will need to be revisited at the time the levies are reviewed and the Authority has experience in operating the regime and the associated costs.
75. Finally, we propose excluding central government suppliers (for example, the Department of Corrections, Department of Conservation, Ministry of Education, or New Zealand Defence Force) from levies, at least initially. This is because these suppliers often service a dispersed population and/or have limited ability to recover costs from users. This will be reconsidered after the initial levy period.

## High level cost recovery model (levies design)

76. Development and analysis of options has included consideration of:
- The period for which levies rate should be set;
  - Whether, and if so how, levies might be stratified across different water services; and
  - How levies should be apportioned amongst levies payors (5 options considered).
77. To determine how the levies should be structured and administered we have applied the following principles, consistent with the Treasury's [Guidelines for Setting Charges in the Public Sector](#) and the Office of the Auditor-General's guide on [Setting and Administering Fees and Levy for Cost Recovery](#).

**NOTE** – not all principles are relevant for each matter covered in this section.

- Equity - those who benefit most directly from the Authority's activities bear most of the costs associated with those activities.
- Efficiency and effectiveness – costs associated with the Authority's functions are borne by drinking water suppliers and network operators to incentivise them to maintain behaviours that will keep costs down, and levies are structured to minimise administrative costs.
- Simplicity – the Authority aims to implement a cost recovery regime that is straightforward and easily understandable to stakeholders.

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<sup>2</sup> Note it is proposed to extend this date to 2028.

<sup>3</sup> Note it is proposed to extend this date to 2030.

<sup>4</sup> The number of smaller unregistered drinking water supplies is uncertain but estimated by the Authority to be between 24,000 and 120,000.

- Justifiability – only those costs related to functions that primarily benefit consumers of water services provided by drinking water suppliers or network operators are recovered, and all other costs are funded from general taxation.
- Transparency and accountability – the Authority reports publicly and consistently on income and expenditure, their drivers and levels of service performance – for example through a Memorandum Account.

78. The extent to which the options for recovery of costs, in particular levies versus fees, would incentivise economically efficient behaviour is heavily dependent on the incoming the Commerce Commission's (as the economic regulator) success to drive competitive market behaviours in the water services sector. If economic regulation is effective, we would expect providers to keep costs down by maintaining high levels of compliance, which will reduce costs associated with the Authority's compliance monitoring and investigations, which can impose significant costs on regulated water organisations. The Authority expects that it will take a fully levy period to ascertain how successful economic regulation is and this will be considered in the first review.

*Levy period until the next funding review*

79. Three options for the period over which levies may apply before the next funding review have been considered.

- Option 1 - Re-set levies every year
- Option 2 – Review the levies annually but re-set every three years, unless there is a material change
- Option 3 - Align levy re-sets with Local Water Done Well requirements placed on water organisations with respect to setting charges.

Option 1 – Re-set levies every year

Equity	Efficiency	Justifiability	Simplicity	Transparency and Accountability
Levies are able to keep pace with changes in population/connections	High administrative costs for the Authority and levy payers.	High accuracy in terms of ensuring charges are justifiable/reflect costs	Difficult to administer due to constant change.	Ensures the Authority's costs and services are under regular scrutiny.

Option 2 – Review the levies annually but re-set in 3 years, unless there is a material change

Equity	Efficiency	Justifiability	Simplicity	Transparency and Accountability
Levis will lag changes in population/ connections. However, these are likely to have a marginal impact on costs per beneficiary.	Moderate administrative costs for the Authority and levy payers.	Moderate accuracy in terms of ensuring charges are justifiable/ reflect costs	Easier to administer due to greater stability change.	Less transparent but still in line with practice across the public sector and the OAG Guidelines

Option 3 - Align levy re-sets with Local Water Done Well requirements placed on water organisations with respect to setting charges.

Equity	Efficiency	Justifiability	Simplicity	Transparency and Accountability
Equity will depend on the cycle of charging reviews undertaken by water organisations.	Frequency of reviews is uncertain. However, would support efficiency by aligning with provider cycles.	Moderate accuracy in terms of ensuring charges are justifiable/ reflect costs	High simplicity due to the alignment with water organisations review cycles.	Depends on the frequency of water organisations reviews.

80. At this time, the Authority prefers Option 2. This reflects that, at the time of writing this interim CRIS, there is some uncertainty associated with the rollout of Local Water Done Well and the implications and timeframes for structural change in the provision of water services over the coming years.

81. Given the environment, the Authority considers simplicity, administrative efficiency and the stability they bring, to be important for the sector in the face of all the other change and uncertainty taking place. We also consider little change in the course of a year following the setting of the levies.

82. This view may change following feedback via consultation.

## **Levies Apportionment**

80. When considering options for how costs should be allocated, we have applied the cost recovery principles outlined in the above section. We have also considered the need to minimise cross-subsidisation and the fact that in the first period, information to support equitable allocation of costs is either not available or inconsistent across the country.

81. We have considered five options for the design of the levies to apportion costs:

- Option 1: equal shares
- Option 2: population bands
- Option 3: connection based
- Option 4: per-person charges based on Census numbers
- Option 5: serviced population charges.

82. These options are discussed below. As outlined above, these options are based on a recommendation to Cabinet for the Crown contribution of \$4.642m p.a. and the remainder being levy funded.

83. Appendix 2 also provides an indication of rates for each option below, based on the application of the 'excludability and 'rivalry' approach to the Authority functions, which yields a partial cost recovery scenario of 74% levy/26% Crown funding.

### ***Option 1 – equal shares***

84. Under this option, each supplier/network operator would be charged the same levies amount regardless of any factors that may differentiate them.

- This would be the most efficient approach for the Authority and would be the simplest approach to communicate.
- This approach also recognises that there is a lack of information relating to how supplier/network operators' size and behaviours will drive the Authority's costs. For example, a large supplier such as Watercare may be considered well-resourced and consequently expected to be capable of meeting its obligations without significant support from the Authority. However, the converse argument is that Watercare supports a significant population and, as such, the consequence of failure presents a high risk, thus necessitating greater interaction with the Authority. Equally, a smaller operator may be less capable and require more guidance while conversely, smaller operators present lower public health risk relative to the total population of New Zealand.

85. This option also does not support an equitable allocation of costs by suppliers to consumers of water services and would see consumers of smaller suppliers/network operators paying more for the benefit of the Authority's services than consumers in larger served populations.



86. The Authority also recognises that for smaller suppliers/operators, being required to pay the same levies as a larger supplier could have a substantial impact on their financial viability. As such, it has explored other options to balance the attainment of charging objectives/principles.

87. Example of equal shares levies: Amount payable (Indicative):

	2025/26	2026/27	2027/28	Yearly Average
Levies	\$20,658,000	\$20,658,000	\$20,658,000	\$20,658,000
Territorial Authorities <sup>5</sup>	66	66	66	
Combined levies per Territorial Authority	\$313,000	\$313,000	\$313,000	\$313,000

### Option 2 – population bands

88. This approach would see drinking water suppliers and network operators placed in bands based on the size of the population they serve. Each band would be assigned a levies rate with the rate increasing at intervals as the population served grows. This is based on the rationale that the Authority takes a risk-based approach to regulation, with greater regulatory focus on the suppliers serving the largest populations as this is where the greatest risk (in terms of the number of people potentially impacted by any quality and supply issues) generally lies. Given that at least initially, Councils will be responsible for paying levies, it is important to note that some, larger Councils will have multiple providers servicing varying population sizes, hence a single Council may end up paying a significant number of levies (i.e. for each of the three waters in respect of each provider they are responsible for).

89. This option would be more equitable than Option 1 (equal shares) as it would result in more proportionate costs for smaller served populations.

90. However, this approach would be less administratively efficient for the Authority than Option 1, as it would require administration of a larger set of levies.

91. As noted above, due to the early stages of regulation and the inconsistency of information across the country, it is not clear how, or even if, the Authority's costs will escalate based on any increases in population size.

92. Also, the broader the population bands, the greater the likelihood of cross-subsidisation. To avoid this, population bands would need to be smaller, meaning more bands to administer, which will reduce the administrative efficiency benefits.

93. However, if a banding approach were to be undertaken, the following is one proposal:

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<sup>5</sup> Note this does not include the Chatham Islands as they are fully government funded.

**Example of Population-based bands: Bands and amount payable (Indicative)**

Band	Population Supplied	No in each Band	Council	2025/26	2026/27	2027/28	Yearly Average
1	> 1,000,000	1	Auckland	\$7,737,841	\$7,737,841	\$7,737,841	\$7,737,841
2	500,000 – 1,000,000	0		\$-	\$-	\$-	\$-
3	350,000 – 500,000	1	Christchurch City	\$1,832,647	\$1,832,647	\$1,832,647	\$1,832,647
4	200,000 – 350,000	1	Wellington City	\$1,119,951	\$1,119,951	\$1,119,951	\$1,119,951
5	100,000 – 200,000	4	Hamilton City, Tauranga City, Dunedin City, Lower Hutt City	\$712,696	\$712,696	\$712,696	\$712,696
6	50,000 – 100,000	8	Palmerston North City, New Plymouth District, Rotorua District, Hastings District, Whangarei District, Napier City, Porirua City, Nelson City	\$285,078	\$285,078	\$285,078	\$285,078
7	20,000 – 50,000	23	Waimakariri District, Kapiti District Council, Selwyn District, Invercargill City, Whanganui District, Upper Hutt City, Waipa District, Timaru District, Taupo District, Gisborne District, Waikato District, Queenstown Lakes District, Marlborough District, Western Bay of Plenty District, Tasman District, Horowhenua District, Whakatane District, Far North District, Ashburton District, Thames-Coromandel District, Matamata-Piako District, Masterton District, Manawatu District	\$162,902	\$162,902	\$162,902	\$162,902
8	10,000 – 20,000	11	South Taranaki District Council, South Waikato District, Waitaki District, Central Otago District, Rangitikei District, Hauraki District, Clutha District, Southland, Kaipara District, Tararua District, Grey District	\$61,088	\$61,088	\$61,088	\$61,088
9	5,000 – 10,000	12	Hurunui District, Carterton District, Gore District, Central Hawke's Bay District, Ruapehu District,	\$30,544	\$30,544	\$30,544	\$30,544

			Kawerau District, South Wairarapa District, Buller District, Stratford District, Westland District, Wairoa District, Waitomo District				
10	2,000 – 5,000	5	Waimate District, Opotiki District, Kaikoura District, Otorohanga District, Mackenzie District	\$10,181	\$10,181	\$10,181	\$10,181

### Option 3 – connection based

94. This option would see levies calculated based on the number of connections a drinking water supplier or network operator is responsible for. We understand that many councils currently charge for water services on a connections basis. Superficially this is an attractive option because it would link the levies closer to utilisation and thus arguably be more equitable. However, we do not recommend this option for several reasons, including:

- Some suppliers do not have an accurate view of how many connections they have.
- Connections are treated in different ways by suppliers, for example, a 50-unit apartment in one catchment may be treated as a single connection, while a 50-unit apartment in another supplier's catchment may be treated as 50 connections.
- Stormwater networks are open systems that are not generally based on “connections” to a service.
- There is an incentive for suppliers to under report the number of connections as this would result in lower levies.

95. Given these constraints, in particular that we do not have accurate information about the number of connections, means that it would be difficult to have accurate data from which to base a levy. We anticipate over time that water organisations will provide us with more accurate and consistent connections data. This option will be looked at again in future funding reviews.

- This option would result in the following (indicative) combined levies rates:

Supplier	Supplier connections	TOTAL INDICATIVE LEVIES BY YEAR			Yearly Average
		2025/26	2026/27	2027/28	
Ashburton District Council	12239	\$149,858	\$149,858	\$149,858	\$149,858
Auckland City Council (Watercare Services Limited)	467165	\$5,720,096	\$5,720,096	\$5,720,096	\$5,720,096
Auckland Council (excluding Watercare)	111	\$1,359	\$1,359	\$1,359	\$1,359
Buller District Council	3385	\$41,447	\$41,447	\$41,447	\$41,447
Carterton District Council	3137	\$38,410	\$38,410	\$38,410	\$38,410

Central Hawkes Bay District Council	4151	\$50,826	\$50,826	\$50,826	\$50,826
Central Otago District Council	14592	\$178,668	\$178,668	\$178,668	\$178,668
Christchurch City Council	179561	\$2,198,594	\$2,198,594	\$2,198,594	\$2,198,594
Clutha District Council	8662	\$106,060	\$106,060	\$106,060	\$106,060
Dunedin City Council	49041	\$600,471	\$600,471	\$600,471	\$600,471
Far North District Council	8731	\$106,905	\$106,905	\$106,905	\$106,905
Gisborne District Council	14304	\$175,142	\$175,142	\$175,142	\$175,142
Gore District Council	4908	\$60,095	\$60,095	\$60,095	\$60,095
Greater Wellington Regional Council	0		\$-	\$-	\$-
Grey District Council	5081	\$62,213	\$62,213	\$62,213	\$62,213
Hamilton City Council	62836	\$769,381	\$769,381	\$769,381	\$769,381
Hastings District Council	24149	\$295,687	\$295,687	\$295,687	\$295,687
Hauraki District Council	8602	\$105,325	\$105,325	\$105,325	\$105,325
Horowhenua District Council	13616	\$166,718	\$166,718	\$166,718	\$166,718
Hurunui District Council	9479	\$116,063	\$116,063	\$116,063	\$116,063
Invercargill City Council	21760	\$266,435	\$266,435	\$266,435	\$266,435
Kaikoura District Council	1200	\$14,693	\$14,693	\$14,693	\$14,693
Kaipara District Council	3728	\$45,647	\$45,647	\$45,647	\$45,647
Kapiti Coast District Council	21712	\$265,848	\$265,848	\$265,848	\$265,848
Kawerau District Council	3025	\$37,039	\$37,039	\$37,039	\$37,039
Mackenzie District Council	3860	\$47,263	\$47,263	\$47,263	\$47,263
Manawatū-Rangitikei District Shared Services	0	\$-	\$-	\$-	\$-
Marlborough District Council	16802	\$205,728	\$205,728	\$205,728	\$205,728
Matamata Piako District Council	9207	\$112,733	\$112,733	\$112,733	\$112,733
Napier City Council	24345	\$298,087	\$298,087	\$298,087	\$298,087
Nelson City Council	21950	\$268,762	\$268,762	\$268,762	\$268,762
New Plymouth District Council	31949	\$391,192	\$391,192	\$391,192	\$391,192
Opotiki District Council	2694	\$32,986	\$32,986	\$32,986	\$32,986
Otorohanga District Council	1784	\$21,844	\$21,844	\$21,844	\$21,844
Palmerston North City Council	33940	\$415,571	\$415,571	\$415,571	\$415,571
Papakura Local Board	23566	\$288,549	\$288,549	\$288,549	\$288,549
Queenstown Lakes District Council	28497	\$348,925	\$348,925	\$348,925	\$348,925
Rotorua Lakes Council	25584	\$313,258	\$313,258	\$313,258	\$313,258
Ruapehu District Council	6280	\$76,894	\$76,894	\$76,894	\$76,894
Selwyn District Council	25600	\$313,453	\$313,453	\$313,453	\$313,453
South Taranaki District Council	10189	\$124,757	\$124,757	\$124,757	\$124,757
South Waikato District Council	8490	\$103,954	\$103,954	\$103,954	\$103,954
South Wairarapa District Council	4214	\$51,597	\$51,597	\$51,597	\$51,597
Southland District Council	11633	\$142,438	\$142,438	\$142,438	\$142,438
Stratford District Council	3025	\$37,039	\$37,039	\$37,039	\$37,039
Taranaki Regional Council	1	\$12	\$12	\$12	\$12
Tararua District Council	5727	\$70,123	\$70,123	\$70,123	\$70,123
Tasman District Council	14752	\$180,628	\$180,628	\$180,628	\$180,628

Taupo District Council	20068	\$245,718	\$245,718	\$245,718	\$245,718
Tauranga City Council	62685	\$767,532	\$767,532	\$767,532	\$767,532
Thames-Coromandel District Council	0	\$-	\$-	\$-	\$-
Timaru District Council	21313	\$260,962	\$260,962	\$260,962	\$260,962
Waikato District Council	18116	\$221,817	\$221,817	\$221,817	\$221,817
Waimakariri District Council	21468	\$262,860	\$262,860	\$262,860	\$262,860
Waimate District Council	3231	\$39,561	\$39,561	\$39,561	\$39,561
Waipa District Council	17736	\$217,164	\$217,164	\$217,164	\$217,164
Wairoa District Council	2255	\$27,611	\$27,611	\$27,611	\$27,611
Waitaki District Council	10810	\$132,361	\$132,361	\$132,361	\$132,361
Waitomo District Council	3033	\$37,137	\$37,137	\$37,137	\$37,137
Wellington Water	163039	\$1,996,294	\$1,996,294	\$1,996,294	\$1,996,294
Western Bay of Plenty District Council	18201	\$222,858	\$222,858	\$222,858	\$222,858
Westland District Council	2826	\$34,602	\$34,602	\$34,602	\$34,602
Whakatane District Council	14635	\$179,195	\$179,195	\$179,195	\$179,195
Whanganui District Council	20022	\$245,155	\$245,155	\$245,155	\$245,155
Whangarei District Council	28454	\$348,399	\$348,399	\$348,399	\$348,399
<b>Total Connections</b>	<b>1687156</b>	<b>\$20,658,000</b>	<b>\$20,658,000</b>	<b>\$20,658,000</b>	<b>\$20,658,000</b>

Note: some data is missing / has not been provided by suppliers. Some of the data has also been supplied at a Regional Council or Local Board level.

#### ***Option 4 – per person charge based on district population (preferred option)***

96. In the absence of information to enable a differential approach to cost allocation and to ensure consumers of a drinking water supplier's or network operator's services equitably face the same costs associated with the Authority's functions, we propose the quantum of the levies charged to each supplier/network operator is based on the population within the catchment area of that supplier.
97. This would require the total levies to be collected by the Authority to be divided by the population of New Zealand, and then multiplied by the population in each regulated suppliers' cities or districts to derive the per-person costs to be recovered from each supplier.
98. The Authority would use the most recent census data to determine the population for each supplier. We note that if the levies are set on a one or three-year cycle, reliance on census data, which is collected every five years, will result in some inaccuracies in allocation that will impact on the equitability of this option, for example, as people move from one catchment to another in between census periods. However, based on historical rates of population growth, we consider these impacts are likely to have a minimal impact on the amount of the Authority's costs allocated based on the population in each area.

99. This option is distinct from Option 2 (population bands) in that Option 2 assumes that there are 'tipping points' at which the Authority's costs increase for a supplier or operator.

100. Under this option, the same number of suppliers will be levied as other options. This option however ensures that calculation of the quantum of levies more closely reflects the size of the population they serve, and thus who benefits from the Authority's functions. We recognise that Local Water Done Well reforms may impact on the size and location of serviced populations served by individual suppliers but consider it should be possible to map councils' joint services arrangements, CCOs, and/or trusts to territorial authority boundaries.

101. Local Water Done Well may also result in a range of different permutations in respect of which functions are transferred from councils and which are not. Through consultation we will seek feedback on which would be the best party to be liable for the levies, in expectation that the liable party will administer their own processes for funding their levies payment (e.g. local authority rates).

102. This option would result in the following (indicative) combined levies collection:

Territorial authority and Auckland local board area	2023 Census Population	Total Indicative levies by year			Yearly Average
		2025/26	2026/27	2027/28	
Ashburton district	34,746	\$143,751	\$143,751	\$143,751	\$143,751
Auckland	1,656,486	\$6,853,184	\$6,853,184	\$6,853,184	\$6,853,184
Buller district	10,446	\$43,217	\$43,217	\$43,217	\$43,217
Carterton district	10,107	\$41,814	\$41,814	\$41,814	\$41,814
Central Hawke's Bay district	15,480	\$64,044	\$64,044	\$64,044	\$64,044
Central Otago district	24,306	\$100,558	\$100,558	\$100,558	\$100,558
Christchurch city	391,383	\$1,619,223	\$1,619,223	\$1,619,223	\$1,619,223
Clutha district	18,315	\$75,772	\$75,772	\$75,772	\$75,772
Dunedin city	128,901	\$533,287	\$533,287	\$533,287	\$533,287
Far North district	71,430	\$295,519	\$295,519	\$295,519	\$295,519
Gisborne district	51,135	\$211,555	\$211,555	\$211,555	\$211,555
Gore district	12,711	\$52,588	\$52,588	\$52,588	\$52,588
Grey district	14,043	\$58,098	\$58,098	\$58,098	\$58,098
Hamilton city	174,741	\$722,935	\$722,935	\$722,935	\$722,935
Hastings district	85,965	\$355,653	\$355,653	\$355,653	\$355,653
Hauraki district	21,318	\$88,196	\$88,196	\$88,196	\$88,196
Horowhenua district	36,693	\$151,806	\$151,806	\$151,806	\$151,806
Hurunui district	13,608	\$56,299	\$56,299	\$56,299	\$56,299
Invercargill city	55,599	\$230,023	\$230,023	\$230,023	\$230,023
Kaikoura district	4,215	\$17,438	\$17,438	\$17,438	\$17,438
Kaipara district	25,899	\$107,149	\$107,149	\$107,149	\$107,149
Kapiti Coast district	55,914	\$231,326	\$231,326	\$231,326	\$231,326
Kawerau district	7,539	\$31,190	\$31,190	\$31,190	\$31,190
Lower Hutt city	107,562	\$445,004	\$445,004	\$445,004	\$445,004
Mackenzie district	5,115	\$21,162	\$21,162	\$21,162	\$21,162
Manawatu district	32,415	\$134,107	\$134,107	\$134,107	\$134,107
Marlborough district	49,431	\$204,505	\$204,505	\$204,505	\$204,505
Masterton district	27,678	\$114,509	\$114,509	\$114,509	\$114,509
Matamata-Piako district	37,098	\$153,481	\$153,481	\$153,481	\$153,481
Napier city	64,695	\$267,655	\$267,655	\$267,655	\$267,655
Nelson city	52,584	\$217,550	\$217,550	\$217,550	\$217,550
New Plymouth district	87,000	\$359,935	\$359,935	\$359,935	\$359,935
Ōpōtiki district	10,089	\$41,740	\$41,740	\$41,740	\$41,740
Ōtorohanga district	10,410	\$43,068	\$43,068	\$43,068	\$43,068
Palmerston North city	87,090	\$360,307	\$360,307	\$360,307	\$360,307

Porirua city	59,445	\$245,935	\$245,935	\$245,935	\$245,935
Queenstown-Lakes district	47,808	\$197,790	\$197,790	\$197,790	\$197,790
Rangitikei district	15,663	\$64,801	\$64,801	\$64,801	\$64,801
Rotorua district	74,058	\$306,391	\$306,391	\$306,391	\$306,391
Ruapehu district	13,095	\$54,176	\$54,176	\$54,176	\$54,176
Selwyn district	78,144	\$323,296	\$323,296	\$323,296	\$323,296
South Taranaki district	29,025	\$120,082	\$120,082	\$120,082	\$120,082
South Waikato district	25,044	\$103,612	\$103,612	\$103,612	\$103,612
South Wairarapa district	11,811	\$48,864	\$48,864	\$48,864	\$48,864
Southland district	31,833	\$131,699	\$131,699	\$131,699	\$131,699
Stratford district	10,149	\$41,988	\$41,988	\$41,988	\$41,988
Tararua district	18,660	\$77,200	\$77,200	\$77,200	\$77,200
Tasman district	57,807	\$239,158	\$239,158	\$239,158	\$239,158
Taupo district	40,296	\$166,712	\$166,712	\$166,712	\$166,712
Tauranga city	152,844	\$632,343	\$632,343	\$632,343	\$632,343
Thames-Coromandel district	31,995	\$132,369	\$132,369	\$132,369	\$132,369
Timaru district	47,547	\$196,711	\$196,711	\$196,711	\$196,711
Upper Hutt city	45,759	\$189,313	\$189,313	\$189,313	\$189,313
Waikato district	85,968	\$355,665	\$355,665	\$355,665	\$355,665
Waimakariri district	66,246	\$274,072	\$274,072	\$274,072	\$274,072
Waimate district	8,121	\$33,598	\$33,598	\$33,598	\$33,598
Waipa district	58,686	\$242,795	\$242,795	\$242,795	\$242,795
Wairoa district	8,826	\$36,515	\$36,515	\$36,515	\$36,515
Waitaki district	23,472	\$97,108	\$97,108	\$97,108	\$97,108
Waitomo district	9,585	\$39,655	\$39,655	\$39,655	\$39,655
Wellington city	202,689	\$838,561	\$838,561	\$838,561	\$838,561
Western Bay of Plenty district	56,184	\$232,443	\$232,443	\$232,443	\$232,443
Westland district	8,901	\$36,825	\$36,825	\$36,825	\$36,825
Whakatane district	37,149	\$153,692	\$153,692	\$153,692	\$153,692
Whanganui district	47,619	\$197,008	\$197,008	\$197,008	\$197,008
Whangarei district	96,678	\$399,974	\$399,974	\$399,974	\$399,974
<b>TOTAL</b>	<b>4,993,254</b>	<b>\$20,658,000</b>	<b>\$20,658,000</b>	<b>\$20,658,000</b>	<b>\$20,658,000</b>

### ***Option 5 – serviced population charge***

103. This option would take the population data required for Option 3 (connection based) and adjust it for the population serviced.
104. This option is more equitable than Option 3 as it recognises that, particularly in regional/rural areas, a significant portion of the ratable population may be on self-supply and as such, not subject to regulation by the Authority.
105. The greatest challenge with this option is that data either does not exist, is unreliable, or does not have a consistent methodology for measurement. These constraints mean this option cannot be consistently applied. We note this is evidenced by the data provided by suppliers to the Authority in its first few years of existence which has been inconsistent and incomplete in some instances.
106. It would also not achieve the simplicity objective given that it would make calculation of individual levies somewhat more administratively difficult.

107. This option would result in the following (indicative) combined levies collection:

Supplier	Supplier population served	TOTAL LEVIES BY YEAR			Yearly Average
		2025/26	2026/27	2027/28	
Ashburton District Council	25275	\$120,981	\$120,981	\$120,981	\$120,981
Auckland City Council (Watercare Services Limited)	1399673	\$6,699,646	\$6,699,646	\$6,699,646	\$6,699,646
Auckland Council (excluding Watercare)	16800	\$80,415	\$80,415	\$80,415	\$80,415
Buller District Council	6225	\$29,796	\$29,796	\$29,796	\$29,796
Carterton District Council	5860	\$28,049	\$28,049	\$28,049	\$28,049
Central Hawkes Bay District Council	6759	\$32,352	\$32,352	\$32,352	\$32,352
Central Otago District Council	27075	\$129,597	\$129,597	\$129,597	\$129,597
Christchurch City Council	391162	\$1,872,328	\$1,872,328	\$1,872,328	\$1,872,328
Clutha District Council	15600	\$74,671	\$74,671	\$74,671	\$74,671
Dunedin City Council	115357	\$552,165	\$552,165	\$552,165	\$552,165
Far North District Council	22080	\$105,688	\$105,688	\$105,688	\$105,688
Gisborne District Council	39750	\$190,267	\$190,267	\$190,267	\$190,267
Gore District Council	9270	\$44,372	\$44,372	\$44,372	\$44,372
Greater Wellington Regional Council			\$-	\$-	\$-
Grey District Council	9730	\$46,573	\$46,573	\$46,573	\$46,573
Hamilton City Council	179900	\$861,106	\$861,106	\$861,106	\$861,106
Hastings District Council	71167	\$340,646	\$340,646	\$340,646	\$340,646
Hauraki District Council	19677	\$94,186	\$94,186	\$94,186	\$94,186
Horowhenua District Council	28586	\$136,829	\$136,829	\$136,829	\$136,829
Hurunui District Council	16328	\$78,155	\$78,155	\$78,155	\$78,155
Invercargill City Council	47074	\$225,323	\$225,323	\$225,323	\$225,323
Kaikoura District Council	4500	\$21,540	\$21,540	\$21,540	\$21,540
Kaipara District Council	7463	\$35,722	\$35,722	\$35,722	\$35,722
Kapiti Coast District Council	58390	\$279,488	\$279,488	\$279,488	\$279,488
Kawerau District Council	7721	\$36,957	\$36,957	\$36,957	\$36,957
Mackenzie District Council	3230	\$15,461	\$15,461	\$15,461	\$15,461
Manawatū-Rangitikei District Shared Services	19864	\$95,081	\$95,081	\$95,081	\$95,081
Marlborough District Council	37928	\$181,545	\$181,545	\$181,545	\$181,545
Matamata Piako District Council	22474	\$107,574	\$107,574	\$107,574	\$107,574
Napier City Council	62150	\$297,486	\$297,486	\$297,486	\$297,486
Nelson City Council	51170	\$244,929	\$244,929	\$244,929	\$244,929
New Plymouth District Council	67615	\$323,645	\$323,645	\$323,645	\$323,645
Opotiki District Council	4780	\$22,880	\$22,880	\$22,880	\$22,880
Otorohanga District Council	7065	\$33,817	\$33,817	\$33,817	\$33,817
Palmerston North City Council	92300	\$441,801	\$441,801	\$441,801	\$441,801
Papakura Local Board	48513	\$232,211	\$232,211	\$232,211	\$232,211
Queenstown Lakes District Council	96471	\$461,766	\$461,766	\$461,766	\$461,766
Rotorua Lakes Council	68500	\$327,881	\$327,881	\$327,881	\$327,881
Ruapehu District Council	7490	\$35,851	\$35,851	\$35,851	\$35,851
Selwyn District Council	49455	\$236,720	\$236,720	\$236,720	\$236,720
South Taranaki District Council	20907	\$100,073	\$100,073	\$100,073	\$100,073



South Waikato District Council	22535	\$107,866	\$107,866	\$107,866	\$107,866
South Wairarapa District Council	7590	\$36,330	\$36,330	\$36,330	\$36,330
Southland District Council	946	\$4,528	\$4,528	\$4,528	\$4,528
Stratford District Council	6703	\$32,084	\$32,084	\$32,084	\$32,084
Taranaki Regional Council			\$-	\$-	\$-
Tararua District Council	0	\$-	\$-	\$-	\$-
Tasman District Council	31857	\$152,486	\$152,486	\$152,486	\$152,486
Taupo District Council	31868	\$152,539	\$152,539	\$152,539	\$152,539
Tauranga City Council	157506	\$753,915	\$753,915	\$753,915	\$753,915
Thames-Coromandel District Council	24254	\$116,094	\$116,094	\$116,094	\$116,094
Timaru District Council	44613	\$213,544	\$213,544	\$213,544	\$213,544
Waikato District Council	45910	\$219,752	\$219,752	\$219,752	\$219,752
Waimakariri District Council	55557	\$265,928	\$265,928	\$265,928	\$265,928
Waimate District Council	5844	\$27,973	\$27,973	\$27,973	\$27,973
Waipa District Council	42649	\$204,143	\$204,143	\$204,143	\$204,143
Wairoa District Council	5150	\$24,651	\$24,651	\$24,651	\$24,651
Waitaki District Council	19723	\$94,406	\$94,406	\$94,406	\$94,406
Waitomo District Council	7916	\$37,891	\$37,891	\$37,891	\$37,891
Wellington Water	427100	\$2,044,348	\$2,044,348	\$2,044,348	\$2,044,348
Western Bay of Plenty District Council	35826	\$171,484	\$171,484	\$171,484	\$171,484
Westland District Council	7887	\$37,752	\$37,752	\$37,752	\$37,752
Whakatane District Council	31839	\$152,400	\$152,400	\$152,400	\$152,400
Whanganui District Council	45610	\$218,316	\$218,316	\$218,316	\$218,316
Whangarei District Council	65600	\$314,000	\$314,000	\$314,000	\$314,000
<b>Total Connections</b>	<b>4315817</b>	<b>\$20,658,00</b>	<b>\$20,658,00</b>	<b>\$20,658,00</b>	<b>\$20,658,000</b>

Note: some data is missing / has not been provided by suppliers.

### Options for levies apportionment

108. To determine how the levies should be structured we have applied the relevant criteria consistent with the Treasury's *Guidelines for Setting Charges in the Public Sector* and the Office of the Auditor-General's guide on *Setting and Administering Fees and Levies for Cost Recovery*. Consultation will provide an opportunity for councils and network operators to comment on all the options.

Options	Rationale	Criteria		
		Equity	Efficiency & Effectiveness	Simplicity
<b>1. Equal Shares:</b> Each supplier/network operator would be charged the same levies amount regardless of any factors that may differentiate them.	Efficient and simple to understand. Recognises that there is a lack of information relating to how supplier/network operators' size and behaviours will drive our cost. However, raises fairness issues as the impacts would be felt more acutely by smaller suppliers e.g. Westland paying the same amount as Watercare.	✓	✓✓✓	✓✓✓
<b>2. Population bands:</b> Suppliers and network operators placed in bands based on the size of the population they serve. Each band would be assigned a levy rate with the rate increasing as the population served grows.	Administratively efficient but likely to cause cross-subsidisation issues. To avoid this, we would need a large number of population bands. This then reduces the administratively efficiency gains.	✓	✓✓	✓✓
<b>3. Connections:</b> Levies calculated based on the number of connections a supplier is responsible for.	Relies on supplies providing accurate information which they may not have. No nationally consistent approach to what is a connection e.g. multi-unit properties connected in different ways eg: an apartment could count as 1 or many. Stormwater not based on connections.	✓✓	✓	✓
<b>4. Per person charge based on Census:</b> Levies charged to each supplier/network operator is based on the population within the catchment area of that supplier [PREFERRED OPTION].	Ensures calculation of the quantum of levies more closely reflects size of the population served, and thus who benefit from our functions. Relies on independent and robust 3 <sup>rd</sup> party data (Stats NZ) which reduces reliance on council data. Potential equity issues if suppliers choose to pass costs to all ratepayers and not just those on town supply.	✓✓	✓✓✓	✓✓✓

<p><b>5.Serviced population charge:</b> This option would take the population data required for population band option and adjust it for the population serviced.</p>	<p>Relies on supplies providing accurate information which they may not have. No nationally consistent approach to measurement. Stormwater not based on population served.</p>	<p>✓✓</p>	<p>✓</p>	<p>✓</p>
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### Preferred option

109. There is no perfect option, however, on balance Option 4 (per person charge) is the preferred option on the basis that:

- It enables the most direct allocation of costs.
- It is allocated based on information from an independent third party (Stats NZ).
- The population data used to allocate the levies is measured using a consistent methodology across the whole country.
- It is simple and straightforward to understand and calculate.
- It is administratively efficient.

110. However, we acknowledge the limitations of using census data because it is collected every five years which is not in line with the proposed three-year levies review cycle. On balance we consider the impact of the Stats NZ cycle is unlikely to have a material impact on the apportionment of costs between levies payers. We also note that the proposed approach can be readily implemented by 1 July 2025, which is when the Minister has requested that a new funding model be in place.

111. As observed earlier, the Authority acknowledges existing constraints that impact on other options as well as the preferred option - primarily the lack of data and lack of consistent sector approach to matters such as how connections are counted.

112. As Local Water Done Well is rolled out and new water organisations are stood up, the Authority expects data on connections to become more reliable. Consequently, the Authority will continue to keep the basis upon which costs are apportioned under review. This may result in a move to hybrid (i.e. per person/connection) basis in the future and ultimately see the basis upon which the levy is apportioned fully transition to a connection basis over time.

### **Functions charged separately for each water service**

113. We considered options around how to charge the levies. This included whether there should be one levy covering all three waters (drinking, wastewater and stormwater) or a separate levy for each different water service.

114. Functions relating to the different waters lead the Authority to incur differing costs. Charging separate levies for each of the three waters will help the Authority to recover the cost of its functions more justifiably, while adding transparency for those paying charges, without adding significant administrative complexity to the charging approach.

115. This approach is recommended as many of the activities of the Authority are specific to drinking water, wastewater, or stormwater and/or segregated into each of the three waters, for example, setting measures, targets, or rules, reviewing types of plans, and reporting on networks and network operators.

116. The Authority will track the costs associated with each water levy through a Memorandum Account. This will ensure that, over time, each water levy will recover the actual costs the Authority incurs.

117. A single levy would likely result in cross-subsidisation of drinking-water related activities in future, for example, if a council restructures its water supply and wastewater services into a CCO and retains a greater interest in the continued management of stormwater.

118. The levy has been split into the three waters components based on the estimated cost of activities over the three-year levies period. The percentage split varies year on year as the estimated cost of delivering activities changes over this period.

119. Each of the levies options above can be split into the three waters as set out below:

Percentage Split	2025/26	2026/27	2027/28	Average
Drinking Water	75%	75%	74%	75%
Waste Water	21%	21%	21%	21%
Storm Water	4%	4%	5%	4%

120. For example, using Option 4, Ashburton's 2025/26 estimate levies of \$143,751 has the following components:

- Drinking Water \$107,813 (\$143,751 x 75%)
- Waste Water \$30,188 (\$143,751 x 21%)
- Storm Water \$5,750 (\$143,751 x 4%)

## Cost components (cost recovery model)

### Cost drivers

121. Like most regulators, the Authority's largest costs relate to its staff.

122. Some of the costs of the Authority are partially within its control, such as decisions around how much to support activities related to information, education, provision of guidance and proactive audits/inspections. However, even here, as these functions are statutory functions, the Authority is compelled to incur some cost. These costs are also driven by ministerial expectations and strategic choices made by the Authority, as well as the demands and /expectations of drinking water suppliers, network operators and consumers.

123. Other costs are less controllable, these too are driven by statutory requirements, such as obligations to develop drinking water standards, produce annual reports, and a compliance, monitoring and enforcement strategy. In some instances, such as in work leading to the setting of standards, costs are driven by evidence as to best practice. In other instances, such as compliance, monitoring and enforcement, costs are driven by decisions relating to the operating model (i.e. proactive v reactive the approach to identifying non-compliance and how educational v punitive the response to non-compliance is).
124. Finally, there are costs that are outside of the Authority's control. These predominantly relate to the consumption of services classified as 'private' goods and are driven by demand from water services suppliers and network operators (i.e. either because they request the service or, in the case of inspections, they have acted in a way that warrants the Authority delivering the service).

### Cost components

125. As noted above, the predominant cost component is staff costs, this accounts for approximately 67% of the Authority's costs.
126. Indirect inputs include corporate services, accommodation, depreciation on fixed assets, some consultant/contractor costs, Board costs, travel, etc which account for 21% of costs.
127. Indirect costs are captured in overheads.
128. Overheads have been apportioned on an FTE basis.

## Consultation

129. This is an interim CRIS developed by the Authority. No external consultation has been undertaken on the levies to date.
130. A discussion document is being prepared for Cabinet approval to release. The discussion document will contain much of the information provided in this CRIS.
131. The Authority will undertake consultation with affected territorial authorities, their council controlled organisations that provide water services and the Wellington Regional Council as a bulk water supplier over October and November 2024.
132. A number of questions will be posed to seek specific feedback on the levy design, the levy apportionment and levy implementation. Feedback from consultation will be taken into account for the final CRIS and presentation of the final levy proposal to the Minister of Local Government's consideration.

## Conclusions and recommendations

133. The Water Services Act 2021 provides legal authority to recover "any and all" of the Authority's costs associated with its functions through a levy. It is more equitable to ensure those who benefit from regulation face those costs. In addition, because local government has more tools than central government, to address issues of cross-subsidisation, it is considered appropriate that cost recovery for the Authority's functions commence.

134. Treasury's *Guidelines for Setting Charges in the Public Sector* provide guidance on how to determine the relative contribution made by the Crown and levy payers to the funding of public sector agencies. Application of the Treasury Guidelines on charging for public sector goods and services results in an estimate of 74% of the Authority's services being for a "club" or private benefit and thus paid by levy payers, with 26% being for a "public" or Crown benefit and thus paid by the Crown.
135. In determining the structure of the levies, we have also considered matters such as the:
- *Period levies will apply for* – we have recommended a three-year period as the best balance of the various considerations at this time. We also note that this will be kept under review as Local Water Done Well is rolled out, as it may be appropriate to adjust the review period.
  - *Form of the levies* – we have recommended levies to recover the Authority's costs in respect of each of drinking water, wastewater and stormwater in recognition that the nature of the water regulation as a significant impact on costs incurred and charging levies separately supports transparency.
  - *Allocation of costs* – we have recommended a 'population' based approach, which we consider the best balance of equity, transparency and justifiability in the absence of information on connections and an absence of information to enable an approach that takes account of possible cost drivers such as supplier/network operator size and risk. However, we note that as Local Water Done Well is rolled out and information improves, the basis for apportioning costs can be revisited.

## Implementation plan (levies amount)

136. Where a multi-year levies period applies, the Authority's activities and associated costs are expected to increase over the levies period due to inflationary impacts and reflecting that the Authority's functions are expanding. Two options for charging the levies over time have been considered. We do not have a preferred option and will seek feedback on both options through consultation.

*Option 1 – an average levies rate across the period.*

137. This option would see suppliers/network operators pay the same levies amount each year for the period.

138. This would result in the levies being higher than necessary in early years, with the Authority generating a surplus; and lower than it needs to be in later years.

139. This approach may impact on cashflow, particularly for smaller suppliers as it would see supplies paying more than is required to cover the Authority's costs in the initial year(s) of the levies period.

*Option 2 – setting variable levies at the beginning of the levies period*

140. This option would see the levies amount change each year as rates would be set to recover the Authority's actual expected costs in each of the years for the first three-year levies period.

141. This would result in the levies rates being less in year one than for Option 1, the same in year two and higher in year three than for Option 1.

142. The greatest advantage of this approach is that it would see suppliers face lower levies in the initial year(s) and give them certainty as to the higher rates they will face in later year(s) enabling them to manage the impact on cashflow.

#### *Information and advice*

143. Recognising regulations providing for levies will not come into effect for at least 28 days after they are made, the Authority will use this time and other engagement opportunities to make suppliers aware of the pending invoice each payor will receive for their respective drinking, waste and storm water levies and set out terms of payment.

144. The upcoming discussion document will clarify the expected enactment date of the levies, giving levy payors time to make changes to internal systems and processes, if necessary, to ensure they can pay the levies when due.

#### *Payment of levies*

145. Local councils will be responsible for paying levies until such time as they roll out new arrangements under Local Water Done Well reforms. Note this approach will be tested in consultation and some councils may already have finalised their arrangements regarding establishing a water organisation to which invoices could be directed.

146. The Local Government Rating Act 2022 provides for how councils can set rates, including how councils can recover a levy for water activities. While it will be an individual council's decision on how to recover levy costs from ratepayers, we will seek feedback through consultation on any implications councils see arising from the levy implementation (including any implications from our preferred approach to apportion levies on a population based) and how this might change in response to the implementation of Local Water Done Well. We will take this feedback into consideration for final decisions.

147. We propose to levy annually with levies payable quarterly in advance, this will support the Authority's cashflow and the cashflow of smaller suppliers/operators without being overly administratively burdensome for suppliers/network operators. However, for the first quarter, the payment will need to be in arrears because the regulatory power to levy will (subject to Ministers' decisions) only come into force on 1 July 2025.

148. The Authority will utilise E-Invoicing to make payment as easy as possible for suppliers. Invoices will clearly show the amount of each levy payable in respect of each of the three waters.

149. Drinking water suppliers or network operators that do not pay on time will be notified and provided with a further opportunity to make payment prior to any recovery action being taken.

#### *Supplies and network operators*

150. As noted above, Local Water Done Well and council decisions may result in changes in responsibilities for delivering water services that could take many forms depending on local choices. Presently it is proposed that councils and CCOs will be liable for payment of the levies. How they ensure they have the revenues to pay the levies will need to be factored into future operating arrangements for delivering water services. The evolving nature of water services also underlines that the design of the levies may be dynamic over time and that the first levy period (2025-2028) should be considered as a transitional period, including for the other reasons noted earlier.

## Monitoring, evaluation and review

151. At the time of writing this interim CRIS, further work is required on monitoring and evaluation of the levies and service performance.
152. The Authority's intention is to operate a Memorandum Account. The Memorandum Account will be set up to provide visibility of the balance of income and expenditure associated with each of its three waters functions and the drivers of any surpluses or deficits.
153. In line with the Office of the Auditor-General guidance, the Authority recognises that those paying levies have a right to understand the level of service performance they are receiving. As such, the Authority intends to develop metrics to monitor service performance levels.
154. The balance of the Memorandum Account, an analysis of the drivers of cost, attainment of service performance measures and proposals to address any under-performance, will be discussed in each of the Authority's annual reports.
155. Over the first levy period, the Authority will gather information to help it better understand the extent to which fees may be a more appropriate tool to recover costs of some services.
156. In recognition of the uncertainties that the Authority and local government are faced with over the first levy period, the Authority will conduct an annual review. This will ensure no material over or under recovery is occurring and that the Authority is properly resourced to meet sector needs/expectations.



# Version control

Version	Date	Link
1.0	October 2024	

# Appendix 1: Activities of the Water Services Authority

<p><b>Compliance, monitoring and enforcement</b></p> <p>This overarching activity relates to our compliance, monitoring and enforcement role in the water regulatory system. Some examples of the activities we undertake include:</p> <ul style="list-style-type: none"> <li>• Ensure compliance, and undertake enforcement, investigations, prosecutions, and issue infringements as necessary.</li> <li>• Review drinking water safety plans, wastewater risk management plans, and stormwater management strategy plans from suppliers and operators.</li> <li>• Declare drinking water emergencies, exercise special powers, and engage with response agencies.</li> <li>• Publish a Compliance, Monitoring and Enforcement Strategy.</li> </ul>
<p><b>Reporting</b></p> <p>This overarching activity relates to our legislative reporting requirements. Some examples of our reporting include:</p> <ul style="list-style-type: none"> <li>• Produce the Annual Network Performance Report and Annual Drinking Water Regulation Report.</li> <li>• Annual reporting on environmental performance of networks and operators.</li> </ul>
<p><b>Engagement, information and outreach</b></p> <p>This overarching activity relates to our engagement and outreach to stakeholders across the water sector. Some examples of the activities we undertake and the stakeholders we engage with include:</p> <ul style="list-style-type: none"> <li>• Lead engagement with communities at place to support Local Water Done Well, delivered locally.</li> <li>• Sector and inter-agency engagement to build relationships and alignment across the water sector.</li> <li>• Campaigns to raise public awareness.</li> <li>• Engagement with suppliers on pertinent issues to improve compliance and risk reduction.</li> <li>• Develop and review best practice guidance for regulated parties to promote supplier responsibility.</li> <li>• Ensure fit-for-purpose training is available to build sector capability.</li> </ul>
<p><b>Legislation, policy and system</b></p> <p>This overarching activity relates to our role in legislative and policy setting and maintaining a regulatory system. Some examples of the activities we undertake include:</p> <ul style="list-style-type: none"> <li>• Provide policy advice on legislative and regulatory changes and monitor effectiveness of legislation and regulatory practices.</li> <li>• Maintain registers of suppliers and networks.</li> <li>• Develop and review drinking water standards, rules, acceptable solutions, verification method and aesthetic values.</li> <li>• Setting wastewater environmental performance standards.</li> <li>• Setting stormwater environmental performance standards.</li> </ul>

## Appendix 2: Tables following Treasury Guidance

### Option 1 – equal shares.

	2025/26	2026/27	2027/28	Yearly Average
Levies	\$18,843,737	\$18,838,782	\$18,750,089	\$18,810,869
Territorial Authorities	66	66	66	
Levies per Territorial Authority	\$285,511.17	\$285,436.09	\$284,092.26	\$285,013.17

### Option 2 – population bands

Band	Population Supplied	No in each Band	Council	2025/26	2026/27	2027/28	Yearly Average
1	> 1,000,000	1	Auckland	\$7,058,275	\$7,056,419	\$7,023,197	\$7,045,964
2	500,000 – 1,000,000	0		\$-	\$-	\$-	\$-
3	350,000 – 500,000	1	Christchurch City	\$1,671,697	\$1,671,257	\$1,663,389	\$1,668,781
4	200,000 – 350,000	1	Wellington City	\$1,021,592	\$1,021,324	\$1,016,515	\$1,019,811
5	100,000 – 200,000	4	Hamilton City, Tauranga City, Dunedin City, Lower Hutt City	\$650,104	\$649,933	\$646,873	\$648,970
6	50,000 – 100,000	8	Palmerston North City, New Plymouth District, Rotorua District, Hastings District, Whangarei District, Napier City, Porirua City, Nelson City	\$260,042	\$259,973	\$258,749	\$259,588
7	20,000 – 50,000	23	Waimakariri District, Kapiti District Council, Selwyn District, Invercargill City, Whanganui District, Upper Hutt City, Waipa District, Timaru District, Taupo District, Gisborne District, Waikato District, Queenstown Lakes District, Marlborough District, Western Bay of Plenty District, Tasman District, Horowhenua District, Whakatane District, Far North District, Ashburton District, Thames-Coromandel District, Matamata-Piako District, Masterton District, Manawatu District	\$148,595	\$148,556	\$147,857	\$148,336
8	10,000 – 20,000	11	South Taranaki District Council, South Waikato District, Waitaki District, Central Otago District,	\$55,723	\$55,709	\$55,446	\$55,626

			Rangitikei District, Hauraki District, Clutha District, Southland, Kaipara District, Taranua District, Grey District				
9	5,000 – 10,000	12	Hurunui District Carterton District, Gore District, Central Hawke's Bay District , Ruapehu District, Kawerau District, South Wairarapa District, Buller District, Stratford District, Westland District, Wairoa District, Waitomo District	\$27,862	\$27,854	\$27,723	\$27,813
10	2,000 – 5,000	5	Waimate District, Opotiki District, Kaikoura District, Otorohanga District, Mackenzie District	\$9,287	\$9,285	\$9,241	\$9,271

### Option 3 – connection based

Supplier	Supplier connections	TOTAL INDICATIVE LEVIES BY YEAR			Yearly Average
		2025/26	2026/27	2027/28	
Ashburton District Council	12239	\$136,697	\$136,661	\$136,017	\$136,458
Auckland City Council (Watercare Services Limited)	467165	\$5,217,736	\$5,216,364	\$5,191,805	\$5,208,635
Auckland Council (excluding Watercare)	111	\$1,240	\$1,239	\$1,234	\$1,238
Buller District Council	3385	\$37,807	\$37,797	\$37,619	\$37,741
Carterton District Council	3137	\$35,037	\$35,028	\$34,863	\$34,976
Central Hawkes Bay District Council	4151	\$46,362	\$46,350	\$46,132	\$46,281
Central Otago District Council	14592	\$162,977	\$162,934	\$162,167	\$162,693
Christchurch City Council	179561	\$2,005,505	\$2,004,978	\$1,995,538	\$2,002,007
Clutha District Council	8662	\$96,745	\$96,720	\$96,265	\$96,577
Dunedin City Council	49041	\$547,736	\$547,592	\$545,014	\$546,780
Far North District Council	8731	\$97,516	\$97,490	\$97,031	\$97,346
Gisborne District Council	14304	\$159,760	\$159,718	\$158,966	\$159,482
Gore District Council	4908	\$54,817	\$54,803	\$54,545	\$54,722
Greater Wellington Regional Council	0		\$-	\$-	\$-
Grey District Council	5081	\$56,749	\$56,734	\$56,467	\$56,650
Hamilton City Council	62836	\$701,811	\$701,627	\$698,323	\$700,587
Hastings District Council	24149	\$269,719	\$269,648	\$268,378	\$269,248
Hauraki District Council	8602	\$96,075	\$96,050	\$95,598	\$95,908
Horowhenua District Council	13616	\$152,076	\$152,036	\$151,320	\$151,811
Hurunui District Council	9479	\$105,870	\$105,843	\$105,344	\$105,686

Invercargill City Council	21760	\$243,036	\$242,972	\$241,828	\$242,612
Kaikoura District Council	1200	\$13,403	\$13,399	\$13,336	\$13,379
Kaipara District Council	3728	\$41,638	\$41,627	\$41,431	\$41,565
Kapiti Coast District Council	21712	\$242,500	\$242,436	\$241,295	\$242,077
Kawerau District Council	3025	\$33,786	\$33,777	\$33,618	\$33,727
Mackenzie District Council	3860	\$43,112	\$43,101	\$42,898	\$43,037
Manawatū-Rangitikei District Shared Services	0	\$-	\$-	\$-	\$-
Marlborough District Council	16802	\$187,660	\$187,611	\$186,728	\$187,333
Matamata Piako District Council	9207	\$102,832	\$102,805	\$102,321	\$102,653
Napier City Council	24345	\$271,908	\$271,836	\$270,556	\$271,433
Nelson City Council	21950	\$245,158	\$245,094	\$243,940	\$244,731
New Plymouth District Council	31949	\$356,836	\$356,742	\$355,063	\$356,214
Opotiki District Council	2694	\$30,089	\$30,081	\$29,940	\$30,037
Otorohanga District Council	1784	\$19,925	\$19,920	\$19,826	\$19,891
Palmerston North City Council	33940	\$379,074	\$378,974	\$377,190	\$378,412
Papakura Local Board	23566	\$263,207	\$263,138	\$261,899	\$262,748
Queenstown Lakes District Council	28497	\$318,281	\$318,197	\$316,699	\$317,726
Rotorua Lakes Council	25584	\$285,746	\$285,671	\$284,326	\$285,248
Ruapehu District Council	6280	\$70,141	\$70,122	\$69,792	\$70,019
Selwyn District Council	25600	\$285,925	\$285,850	\$284,504	\$285,426
South Taranaki District Council	10189	\$113,800	\$113,770	\$113,235	\$113,602
South Waikato District Council	8490	\$94,824	\$94,799	\$94,353	\$94,659
South Wairarapa District Council	4214	\$47,066	\$47,054	\$46,832	\$46,984
Southland District Council	11633	\$129,928	\$129,894	\$129,283	\$129,702
Stratford District Council	3025	\$33,786	\$33,777	\$33,618	\$33,727
Taranaki Regional Council	1	\$11	\$11	\$11	\$11
Tararua District Council	5727	\$63,964	\$63,948	\$63,647	\$63,853
Tasman District Council	14752	\$164,764	\$164,721	\$163,945	\$164,477
Taupo District Council	20068	\$224,138	\$224,079	\$223,024	\$223,747
Tauranga City Council	62685	\$700,125	\$699,941	\$696,645	\$698,904
Thames-Coromandel District Council	0	\$-	\$-	\$-	\$-
Timaru District Council	21313	\$238,044	\$237,981	\$236,861	\$237,628
Waikato District Council	18116	\$202,336	\$202,283	\$201,331	\$201,984
Waimakariri District Council	21468	\$239,775	\$239,712	\$238,583	\$239,356
Waimate District Council	3231	\$36,087	\$36,077	\$35,907	\$36,024
Waipa District Council	17736	\$198,092	\$198,040	\$197,108	\$197,747
Wairoa District Council	2255	\$25,186	\$25,179	\$25,061	\$25,142
Waitaki District Council	10810	\$120,736	\$120,704	\$120,136	\$120,526
Waitomo District Council	3033	\$33,875	\$33,866	\$33,707	\$33,816
Wellington Water	163039	\$1,820,972	\$1,820,493	\$1,811,922	\$1,817,796
Western Bay of Plenty District Council	18201	\$203,286	\$203,232	\$202,276	\$202,931
Westland District Council	2826	\$31,563	\$31,555	\$31,407	\$31,508
Whakatane District Council	14635	\$163,457	\$163,414	\$162,645	\$163,172
Whanganui District Council	20022	\$223,624	\$223,566	\$222,513	\$223,234
Whangarei District Council	28454	\$317,801	\$317,717	\$316,222	\$317,247

Total Connections	1687156	\$18,843,737	\$18,838,782	\$18,750,089	\$18,810,869
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Note: some data is missing / has not been provided by suppliers.

#### **Option 4 – per person charge (preferred option)**

Territorial authority and Auckland local board area	2023 Census Population	Total Indicative levies by year			Yearly Average
		2025/26	2026/27	2027/28	
Ashburton district	34,746	\$131,126	\$131,091	\$130,474	\$130,897
Auckland	1,656,486	\$6,251,312	\$6,249,668	\$6,220,244	\$6,240,408
Buller district	10,446	\$39,422	\$39,411	\$39,226	\$39,353
Carterton district	10,107	\$38,142	\$38,132	\$37,953	\$38,076
Central Hawke's Bay district	15,480	\$58,419	\$58,404	\$58,129	\$58,317
Central Otago district	24,306	\$91,727	\$91,703	\$91,271	\$91,567
Christchurch city	391,383	\$1,477,016	\$1,476,628	\$1,469,676	\$1,474,440
Clutha district	18,315	\$69,118	\$69,100	\$68,774	\$68,997
Dunedin city	128,901	\$486,452	\$486,324	\$484,034	\$485,603
Far North district	71,430	\$269,565	\$269,494	\$268,226	\$269,095
Gisborne district	51,135	\$192,975	\$192,925	\$192,016	\$192,639
Gore district	12,711	\$47,969	\$47,957	\$47,731	\$47,886
Grey district	14,043	\$52,996	\$52,982	\$52,733	\$52,904
Hamilton city	174,741	\$659,444	\$659,271	\$656,167	\$658,294
Hastings district	85,965	\$324,418	\$324,333	\$322,806	\$323,852
Hauraki district	21,318	\$80,451	\$80,430	\$80,051	\$80,310
Horowhenua district	36,693	\$138,473	\$138,437	\$137,785	\$138,232
Hurunui district	13,608	\$51,354	\$51,341	\$51,099	\$51,265
Invercargill city	55,599	\$209,822	\$209,767	\$208,779	\$209,456
Kaikoura district	4,215	\$15,907	\$15,903	\$15,828	\$15,879
Kaipara district	25,899	\$97,739	\$97,713	\$97,253	\$97,568
Kapiti Coast district	55,914	\$211,010	\$210,955	\$209,962	\$210,642
Kawerau district	7,539	\$28,451	\$28,443	\$28,310	\$28,401
Lower Hutt city	107,562	\$405,922	\$405,815	\$403,904	\$405,214
Mackenzie district	5,115	\$19,303	\$19,298	\$19,207	\$19,270
Manawatu district	32,415	\$122,329	\$122,297	\$121,721	\$122,116
Marlborough district	49,431	\$186,545	\$186,496	\$185,618	\$186,219
Masterton district	27,678	\$104,452	\$104,425	\$103,933	\$104,270
Matamata-Piako district	37,098	\$140,002	\$139,965	\$139,306	\$139,758
Napier city	64,695	\$244,149	\$244,084	\$242,935	\$243,723
Nelson city	52,584	\$198,444	\$198,391	\$197,457	\$198,097
New Plymouth district	87,000	\$328,324	\$328,238	\$326,692	\$327,751
Ōpōtiki district	10,089	\$38,074	\$38,064	\$37,885	\$38,008
Ōtorohanga district	10,410	\$39,286	\$39,275	\$39,090	\$39,217
Palmerston North city	87,090	\$328,664	\$328,577	\$327,030	\$328,090
Porirua city	59,445	\$224,336	\$224,277	\$223,221	\$223,945
Queenstown-Lakes district	47,808	\$180,420	\$180,372	\$179,523	\$180,105
Rangitikei district	15,663	\$59,110	\$59,094	\$58,816	\$59,007
Rotorua district	74,058	\$279,483	\$279,409	\$278,094	\$278,995
Ruapehu district	13,095	\$49,418	\$49,405	\$49,173	\$49,332
Selwyn district	78,144	\$294,903	\$294,825	\$293,437	\$294,389
South Taranaki district	29,025	\$109,536	\$109,507	\$108,991	\$109,345
South Waikato district	25,044	\$94,512	\$94,487	\$94,042	\$94,347
South Wairarapa district	11,811	\$44,573	\$44,561	\$44,351	\$44,495
Southland district	31,833	\$120,133	\$120,101	\$119,536	\$119,923
Stratford district	10,149	\$38,301	\$38,291	\$38,110	\$38,234

Tararua district	18,660	\$70,420	\$70,401	\$70,070	\$70,297
Tasman district	57,807	\$218,154	\$218,097	\$217,070	\$217,774
Taupo district	40,296	\$152,071	\$152,031	\$151,315	\$151,805
Tauranga city	152,844	\$576,809	\$576,657	\$573,942	\$575,803
Thames-Coromandel district	31,995	\$120,744	\$120,712	\$120,144	\$120,533
Timaru district	47,547	\$179,435	\$179,388	\$178,543	\$179,122
Upper Hutt city	45,759	\$172,687	\$172,642	\$171,829	\$172,386
Waikato district	85,968	\$324,429	\$324,344	\$322,817	\$323,864
Waimakariri district	66,246	\$250,002	\$249,936	\$248,759	\$249,566
Waimate district	8,121	\$30,647	\$30,639	\$30,495	\$30,594
Waipa district	58,686	\$221,472	\$221,413	\$220,371	\$221,085
Wairoa district	8,826	\$33,308	\$33,299	\$33,142	\$33,250
Waitaki district	23,472	\$88,580	\$88,556	\$88,139	\$88,425
Waitomo district	9,585	\$36,172	\$36,163	\$35,992	\$36,109
Wellington city	202,689	\$764,916	\$764,715	\$761,114	\$763,581
Western Bay of Plenty district	56,184	\$212,029	\$211,974	\$210,976	\$211,660
Westland district	8,901	\$33,591	\$33,582	\$33,424	\$33,532
Whakatane district	37,149	\$140,194	\$140,157	\$139,498	\$139,950
Whanganui district	47,619	\$179,706	\$179,659	\$178,813	\$179,393
Whangarei district	96,678	\$364,847	\$364,751	\$363,034	\$364,211
<b>TOTAL</b>	<b>4,993,254</b>	<b>\$18,843,737</b>	<b>\$18,838,782</b>	<b>\$18,750,089</b>	<b>\$18,810,869</b>

### Option 5 – serviced population charge

Supplier	Supplier population served	TOTAL LEVIES BY YEAR			Yearly Average
		2025/26	2026/27	2027/28	
Ashburton District Council	25275	\$110,356	\$110,327	\$109,807	\$110,163
Auckland City Council (Watercare Services Limited)	1399673	\$6,111,258	\$6,109,651	\$6,080,886	\$6,100,598
Auckland Council (excluding Watercare)	16800	\$73,352	\$73,333	\$72,988	\$73,224
Buller District Council	6225	\$27,180	\$27,172	\$27,045	\$27,132
Carterton District Council	5860	\$25,586	\$25,579	\$25,459	\$25,541
Central Hawkes Bay District Council	6759	\$29,511	\$29,503	\$29,365	\$29,460
Central Otago District Council	27075	\$118,215	\$118,184	\$117,627	\$118,009
Christchurch City Council	391162	\$1,707,893	\$1,707,444	\$1,699,405	\$1,704,914
Clutha District Council	15600	\$68,113	\$68,095	\$67,774	\$67,994
Dunedin City Council	115357	\$503,672	\$503,540	\$501,169	\$502,794
Far North District Council	22080	\$96,406	\$96,380	\$95,927	\$96,238
Gisborne District Council	39750	\$173,557	\$173,511	\$172,694	\$173,254
Gore District Council	9270	\$40,475	\$40,464	\$40,274	\$40,404
Greater Wellington Regional Council			\$-	\$-	\$-
Grey District Council	9730	\$42,483	\$42,472	\$42,272	\$42,409
Hamilton City Council	179900	\$785,480	\$785,274	\$781,576	\$784,110
Hastings District Council	71167	\$310,730	\$310,648	\$309,185	\$310,188
Hauraki District Council	19677	\$85,914	\$85,891	\$85,487	\$85,764
Horowhenua District Council	28586	\$124,812	\$124,779	\$124,192	\$124,595
Hurunui District Council	16328	\$71,291	\$71,273	\$70,937	\$71,167

Invercargill City Council	47074	\$205,535	\$205,481	\$204,513	\$205,176
Kaikoura District Council	4500	\$19,648	\$19,643	\$19,550	\$19,614
Kaipara District Council	7463	\$32,585	\$32,576	\$32,423	\$32,528
Kapiti Coast District Council	58390	\$254,943	\$254,876	\$253,676	\$254,498
Kawerau District Council	7721	\$33,711	\$33,703	\$33,544	\$33,653
Mackenzie District Council	3230	\$14,103	\$14,099	\$14,033	\$14,078
Manawatū-Rangitikei District Shared Services	19864	\$86,730	\$86,707	\$86,299	\$86,579
Marlborough District Council	37928	\$165,601	\$165,558	\$164,778	\$165,313
Matamata Piako District Council	22474	\$98,126	\$98,100	\$97,638	\$97,955
Napier City Council	62150	\$271,360	\$271,288	\$270,011	\$270,886
Nelson City Council	51170	\$223,419	\$223,360	\$222,308	\$223,029
New Plymouth District Council	67615	\$295,221	\$295,143	\$293,754	\$294,706
Opotiki District Council	4780	\$20,870	\$20,865	\$20,767	\$20,834
Otorohanga District Council	7065	\$30,847	\$30,839	\$30,694	\$30,793
Palmerston North City Council	92300	\$403,001	\$402,895	\$400,998	\$402,298
Papakura Local Board	48513	\$211,818	\$211,762	\$210,765	\$211,448
Queenstown Lakes District Council	96471	\$421,212	\$421,101	\$419,119	\$420,477
Rotorua Lakes Council	68500	\$299,085	\$299,006	\$297,599	\$298,563
Ruapehu District Council	7490	\$32,703	\$32,694	\$32,540	\$32,646
Selwyn District Council	49455	\$215,931	\$215,874	\$214,858	\$215,554
South Taranaki District Council	20907	\$91,284	\$91,260	\$90,831	\$91,125
South Waikato District Council	22535	\$98,392	\$98,367	\$97,903	\$98,221
South Wairarapa District Council	7590	\$33,139	\$33,131	\$32,975	\$33,082
Southland District Council	946	\$4,130	\$4,129	\$4,110	\$4,123
Stratford District Council	6703	\$29,267	\$29,259	\$29,121	\$29,216
Taranaki Regional Council			\$-	\$-	\$-
Tararua District Council	0	\$-	\$-	\$-	\$-
Tasman District Council	31857	\$139,094	\$139,058	\$138,403	\$138,852
Taupo District Council	31868	\$139,142	\$139,106	\$138,451	\$138,899
Tauranga City Council	157506	\$687,703	\$687,522	\$684,286	\$686,504
Thames-Coromandel District Council	24254	\$105,898	\$105,870	\$105,372	\$105,713
Timaru District Council	44613	\$194,789	\$194,738	\$193,821	\$194,450
Waikato District Council	45910	\$200,452	\$200,400	\$199,456	\$200,103
Waimakariri District Council	55557	\$242,573	\$242,509	\$241,368	\$242,150
Waimate District Council	5844	\$25,516	\$25,509	\$25,389	\$25,472
Waipa District Council	42649	\$186,214	\$186,165	\$185,289	\$185,889
Wairoa District Council	5150	\$22,486	\$22,480	\$22,374	\$22,447
Waitaki District Council	19723	\$86,115	\$86,092	\$85,687	\$85,964
Waitomo District Council	7916	\$34,563	\$34,554	\$34,391	\$34,503
Wellington Water	427100	\$1,864,806	\$1,864,315	\$1,855,538	\$1,861,553
Western Bay of Plenty District Council	35826	\$156,424	\$156,382	\$155,646	\$156,151
Westland District Council	7887	\$34,436	\$34,427	\$34,265	\$34,376
Whakatane District Council	31839	\$139,016	\$138,979	\$138,325	\$138,773
Whanganui District Council	45610	\$199,143	\$199,090	\$198,153	\$198,795
Whangarei District Council	65600	\$286,423	\$286,348	\$285,000	\$285,923
<b>Total Connections</b>	<b>4315817</b>	<b>\$18,843,737</b>	<b>\$18,838,782</b>	<b>\$18,750,089</b>	<b>\$18,810,869</b>



# Appendix: Quality Assurance Statement from the Regulatory Impact Analysis Panel

# Memo

<b>To</b>	Sara McFall, Head of Systems, Strategy and Performance, Water Services Authority - Taumata Arowai
<b>Cc</b>	Helen Robertson, Director Policy, Taumata Arowai
<b>From</b>	Peter Hodge, Chair of the DIA RIA panel
<b>Date</b>	9 October 2024
<b>Subject</b>	Quality Assurance statement: Proposal to charge three levies to local government drinking water suppliers, wastewater operators, and stormwater operators

## Quality Assurance Review

The Department's Regulatory Impact Analysis (RIA) panel has reviewed Taumata Arowai's Cost Recovery Impact Statement (CRIS) in accordance with the quality assurance criteria set out in the [CabGuide](#).

The panel members for this review were:

- Peter Hodge, Principal Policy Analyst (chair);
- Hamed Shafiee, Principal Policy Analyst (member);
- Anna Barry, Senior Policy Analyst (member);
- Lauren Thompson, Senior Policy Analyst (member); and
- Connie Hutchinson, Senior Advisor (Secretariat).

The panel considers that the information and analysis summarised in the RIA **partially meets** the quality assurance criteria.

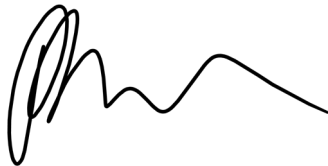
It notes that the CRIS and details of the proposal have yet to be publicly consulted.

The panel has identified limitations with the CRIS's analysis of options and the potential impacts on stakeholders, including local authorities, water services suppliers and consumers of water services. In particular, the assessment of per connection/serviced population options is limited, with key information missing that may affect levy amounts for councils and consumers. The risks and consequences of under-reporting connections, and the potential for misaligned incentives, have not been fully explored.

As well, the CRIS is not clear on the methodology used for estimating the preferred 74 per cent levy option and does not adequately address alternative approaches, such as the use of a 'risk exacerbator' framework (versus the utilised 'beneficiary pays' framework). Options for the length of the initial levy period are under-defined.

A more robust understanding of these impacts on stakeholders will require additional data and evidence. Presumably, this will be gathered through consultation with local authorities which is expected to occur from October to November 2024 (subject to Cabinet agreement). Consultation will be crucial in ensuring that decisions are informed by comprehensive insights into stakeholder concerns and the broader implications of the proposal.

An updated proposal and CRIS will be finalised following consultation



Peter Hodge  
Chair of the Department of Internal Affairs RIA panel

9 / 10 / 2024