05 June 2026

Infrastructure Regulation Branch

Commerce Commission

By email: wai@comcom.govt.nz

Dear Commissioners,

Submission on Ring-fencing revenue for regulated water services (22 April 2026 discussion paper)

The Manawatū District Council (MDC) thanks the Commerce Commission for the opportunity to provide feedback on the discussion paper on ring-fencing revenue for regulated water services.

MDC supports stronger transparency and accountability around how water service revenue and funding is used. We agree that revenue collected for water services should be used for water services. At the same time, MDC considers any new requirements need to remain workable and flexible, particularly while local government reform discussions are underway. Since the discussion paper was released, the Government has invited councils to develop potential amalgamation proposals within a short timeframe. The future structure of local government in our region is therefore uncertain.

MDC asks the Commission to ensure any new ring-fencing requirements can operate sensibly through future governance or structural changes, including any lawful transfer of assets, debt, reserves, or funding arrangements.

Executive summary

MDC generally supports the direction of the discussion paper. We support clearer service-level reporting for drinking water and wastewater services, improved disclosure of transfers and loans between activities, and greater visibility of reserves and earmarked funding. We also support reporting arrangements that align with audited financial statements and existing obligations under the Local Government (Water Services) Act 2025.

However, MDC does not support a rigid “lock-box” approach that prevents practical or temporary movements of funding between activities. Water infrastructure projects often span several years, and councils need enough flexibility to manage funding efficiently over time.

MDC considers the Commission should take a staged and evidence-based approach. Monitoring and disclosure should occur first, with stricter controls only introduced if there is evidence that significant problems or inappropriate use of funds are occurring.

MDC also seeks practical guidance on how ring-fencing requirements would apply during future governance or structural changes.

Summary of position

MDC agrees that tracking significant cash movements between services is an important part of providing clear visibility over how water service revenue and funding is managed. However, we consider that this should complement existing accounting separation and audited reporting requirements, rather than replace them.

MDC supports service-level reporting for drinking water and wastewater services because this provides clearer information about how revenue and funding is being applied. We also support disclosure of material transfers, internal loans, and reserve movements where these are significant enough to affect understanding of the financial position of the services.

At the same time, MDC does not support overly restrictive rules that prevent councils from managing long-term infrastructure investment efficiently. Temporary transfers may sometimes be necessary to manage project timing, growth pressures, or short-term cash flow requirements. In our view, the key issue is that these arrangements are transparent, properly documented, and appropriately disclosed.

MDC also supports aligning any new reporting requirements with the existing Funding Impact Statement and annual reporting frameworks being developed under the Local Government (Water Services) Act 2025. This will reduce duplication and avoid unnecessary compliance costs.

Approach to and scope of the ring-fence (DP Q1–4)

1. *In the context of promoting the s 52A purpose, should compliance monitoring focus solely on accounting separation, or also on trackable cash flows?*

MDC agrees that tracking significant cash movements between services is useful and can support transparency. However, we do not consider that cash flow tracking should replace existing accounting separation and audited reporting requirements. Rather, it should support and supplement existing accounting separation arrangements.

We support visibility of material transfers and reserve movements, while still allowing councils enough flexibility to manage multi-year infrastructure programmes efficiently.

2. *Should temporary cash transfers between services be allowed, and if so on what basis?*

MDC considers that temporary transfers between services should be permitted where they are transparent, documented, and intended to address short-term funding or cash flow requirements. In practice, councils sometimes need flexibility to manage project timing, growth-related expenditure, or temporary cash flow pressures.

However, these arrangements should not become indefinite or operate as hidden subsidies between unrelated activities. Where temporary transfers occur, there should be clear approval processes, documentation of the purpose of the transfer, and appropriate repayment arrangements. MDC considers that temporary transfers should

generally be repaid within the same financial year to avoid effectively becoming internal loan arrangements over time.

3. *Should disclosure be at individual service-level or combined?*

MDC supports service-level reporting for drinking water and wastewater services separately. We consider this will provide clearer accountability and more useful information for both regulators and communities.

While a combined overview may still have value, separate reporting better reflects the distinct funding and investment needs of each service. Separate reporting also reduces the risk that ongoing transfers or cross-subsidisation between drinking water and wastewater services remain obscured within a combined reporting framework.

4. *How should stormwater be treated?*

Stormwater services are subject to the financial principles under the Local Government (Water Services) Act 2025 but are not currently regulated services under the Commerce Act water services regime.

MDC considers that stormwater should be included in service level transparency arrangements, even if it is not currently subject to Commerce Act economic regulation. Stormwater is a core water service, and MDC's Water Services Delivery Plan treats stormwater as part of the Council's integrated water services planning and investment framework. This reflects the practical reality that stormwater investment is closely connected to wider three-waters planning, growth, resilience, and infrastructure delivery.

MDC is also making significant investment in stormwater infrastructure, including detention ponds and capital works in rural villages, and collects stormwater rates to support these activities. In principle, revenue and funding collected for stormwater should be applied to stormwater services, including maintenance, renewals, upgrades, growth, resilience, and debt servicing associated with stormwater infrastructure.

MDC therefore supports a staged approach. Stormwater revenue, expenditure, reserves, borrowing, and material transfers should be separately identifiable through reporting in the first instance. This would improve transparency and community confidence without prematurely imposing the full economic regulation framework on stormwater.

However, MDC considers that any extension of the economic regulation framework to stormwater services should occur through a clear legislative process and with appropriate consideration of the operational and funding differences associated with stormwater infrastructure. These differences include stormwater's close relationship with land drainage, roading, growth planning, flood risk management, climate resilience, and the management of public and private land impacts.

If stormwater services are brought within the regulated water services framework in future, MDC supports stormwater being considered for ring-fencing, provided the approach remains practical, proportionate, and aligned with existing planning and reporting obligations.

Treatment of specific revenue/expenditure (DP Q5)

5. *Are any categories of revenue/expenditure already ring-fenced by law (e.g. IFF, DCs)?*

MDC considers that some funding sources already have clear legal or contractual restrictions around how they may be used. This may include development contributions, targeted rates, Infrastructure Funding and Financing levies, and insurance proceeds associated with specific projects. As such, MDC does not consider there is a need for any further separation or ring-fencing requirements for these funding sources.

One-way direction of ring-fence (DP Q6)

6. *Should all revenue for water services be spent on water, or can it flow one-way to water?*

MDC agrees that revenue collected for water services should be used for water services. At the same time, councils may sometimes use general funding, borrowing, or temporary support to help deliver water infrastructure projects, particularly where there are growth pressures or urgent infrastructure needs.

Where this occurs, the arrangements should be transparent, clearly documented, and supported by a demonstrated exceptional need. MDC does not support the routine or permanent diversion of water-service revenue to unrelated non-water activities, as there is a risk that temporary arrangements could otherwise become standard practice over time.

Periodic balancing of fund flows (DP Q7)

7. *Should fund-flow balancing be reported annually or with a rolling context?*

MDC supports annual reporting supported by a multi-year context. Large infrastructure projects frequently span several years, and a single-year snapshot may not accurately reflect the purpose or timing of reserves, borrowing, or transfers.

A rolling multi-year approach would better reflect the realities of multi-year infrastructure delivery and financial planning.

Record-keeping requirements (DP Q8)

8. *What minimum records should suppliers keep?*

MDC supports practical and auditable record-keeping requirements that build on existing financial systems wherever possible. Suppliers should maintain sufficient records to identify material transfers between services, reserve balances, and any internal lending arrangements.

This may include transfer registers, reserve schedules, records of internal loans or borrowing arrangements, and other authorised supporting documentation. MDC also considers that these requirements should be supported through existing accounting processes wherever possible. However, requirements should remain proportionate and should avoid duplicating information already captured through existing audit and

reporting processes. Records should also identify the source, destination, purpose, and expected repayment or reconciliation pathway for any material transfer.

Time limits on temporary transfers (DP Q9–Q10)

9. *At what point is a transfer effectively financing?*

MDC considers that transfers which remain unresolved beyond a financial year, or which are repeatedly rolled over without clear repayment arrangements, should generally be treated as financing arrangements and disclosed accordingly. Where transfers occur outside of water activities, MDC supports the use of formal agreements to ensure the purpose, repayment terms, and funding pathway are transparent and clearly documented. At the same time, councils should retain enough flexibility to manage legitimate long-term infrastructure funding arrangements.

10. Should there be hard limits on transfer duration or size?

MDC does not support strict hard limits on transfer duration or size. Instead, MDC supports a principles-based approach with clear conditional criteria around the purpose, transparency, and repayment of transfers. Where temporary transfers occur, there should be a clear pathway for repayment or financial rebalancing over time. In MDC's view, the focus should be on ensuring transfers are appropriately documented, justified, and recoverable, rather than applying rigid thresholds that may not reflect the realities of long-term infrastructure funding and delivery.

Borrowing charges for inter-service lending (DP Q11–Q12)

11. Should internal lending attract an interest charge?

MDC agrees that where lending occurs between activities, a reasonable interest rate or pricing approach should apply. This helps ensure transparency and avoids hidden subsidies between activities. Any pricing approach should remain practical and proportionate to the scale and complexity of the arrangement. MDC also notes that internal borrowing can ultimately contribute to external debt requirements and therefore supports a fair accounting charge to reflect the cost of internal lending arrangements.

12. What should be disclosed about internal loans?

Where internal lending arrangements exist, MDC supports disclosure of the purpose of the arrangement, the balances involved, the repayment terms, and the pricing or interest basis used. The focus should remain on material arrangements that are relevant to understanding the financial position of the services, and these disclosures could be included as a note within the annual report.

Timely application of accumulated funds (DP Q13–Q16)

13. Should saved funding for renewals/investment be time-limited?

MDC does not support strict limits on how long funds may accumulate before being applied to water infrastructure. Councils often need to accumulate funding over time for

renewals, resilience, debt servicing, and major capital projects. Imposing rigid limits could undermine prudent long-term financial planning and infrastructure delivery.

However, MDC agrees there should be a clear and demonstrable intention for how accumulated funds will be applied over time, particularly where reserves are being held for significant future investment or renewal programmes. This intention should preferably be supported through approved planning documents such as asset management plans, infrastructure strategies, long-term plans, or approved capital programmes

14. Are strict time or interest-use limits appropriate?

MDC considers that overly strict limits are unlikely to reflect the realities of long-term renewals and capital investment. Water infrastructure projects are often planned and funded over extended timeframes, and councils need flexibility to manage funding responsibly across those periods. Overly rigid limits could distort long-term planning and reduce councils' ability to ensure future investment appropriately matches the infrastructure needs of the communities those services support.

15. Should transactions involving accumulated funds be recorded specially?

MDC does not have a strong or fixed view on this issue. However, MDC supports separately identifying and explaining material reserve movements or transfers involving accumulated funds. In our view, this improves transparency while still allowing councils to manage reserves appropriately and plan for future infrastructure investment. Where accumulated funds are applied to another activity, the original purpose for which those funds were retained should also be disclosed.

16. Should any revenue be strictly reserved?

MDC considers that funding collected for specific purposes should remain clearly earmarked and separately tracked. This is particularly important where funding has been collected for defined infrastructure or growth-related purposes.

Differential rules by scale, complexity or risk (DP Q17–Q18)

17. Should smaller or simpler providers face lighter requirements?

MDC supports a proportionate approach to regulation. Smaller standalone councils should not face the same level of compliance burden as large multi-council entities, provided material fund movements remain transparent and appropriately documented. A flexible approach will help ensure compliance costs remain reasonable while still supporting accountability, with reporting and compliance expectations appropriately reflecting the size, scale, and complexity of the provider.

18. What fund flows are highest risk?

MDC considers that the key concern is ensuring transparency and avoiding inappropriate cross-subsidisation between activities. Particular attention should therefore be given to transfers between water and non-water activities, shared-cost allocations, internal lending arrangements, and significant reserve transfers where these are not clearly documented or explained.

Fit-for-purpose reporting (DP Q19–Q22)

19. What disclosures would help demonstrate ring-fencing?

MDC supports reporting arrangements that provide clear visibility of service-level revenue, expenditure, reserves, transfers, and internal lending arrangements where material. Reporting should also reconcile clearly with audited financial statements so the relationship between service-level reporting and Council accounts is transparent, including making any lending arrangements visible and clearly identifiable. MDC's preference is for ring-fencing disclosures to be incorporated into existing reporting frameworks wherever possible, rather than creating a separate reporting regime.

20. Should a standard FIS template be required?

Yes. MDC considers that a standard template would improve consistency and reduce unnecessary complexity.

Where possible, reporting requirements should align with the Funding Impact Statement and annual reporting frameworks already being developed under the Local Government (Water Services) Act 2025.

21. Should the FIS include extra line items?

Yes. MDC supports including additional line items where they improve transparency around transfers, lending arrangements, goods and services provided between activities, and related-party transactions. This may include disclosure of transfer balances and internal loan balances where relevant. However, MDC does not support creating an overly detailed or duplicative reporting framework.

22. What additional GAAP review is needed?

MDC considers that clear guidance is needed, framed specifically for water entities and the operating environment they work within. MDC also considers that existing audit processes already provide substantial oversight. Any additional review requirements should focus on material transfers, reserves, and related-party arrangements that are relevant to understanding compliance with the ring-fencing principle, rather than creating a separate audit framework.

Potential rules for restricting movements (DP Q23)

23. What, if any, permanent restrictions should apply?

MDC considers the Commission should take a staged and evidence-based approach before introducing restrictions on fund movements.

Monitoring and disclosure should occur first, with additional controls introduced only where there is evidence that they are needed. The Commission should also provide practical guidance on how ring-fencing requirements would apply during future governance or structural changes, including any lawful transfer of assets, liabilities, reserves, or service responsibilities.

Other comments

MDC strongly encourages the Commission to align any new requirements with the reporting frameworks already being developed under the Local Government (Water Services) Act 2025. Avoiding duplication will reduce compliance costs and improve consistency across the sector.

MDC's priority remains delivering safe, reliable, and affordable water infrastructure for our communities. Any new reporting framework should support transparency while still allowing councils to plan and deliver long-term infrastructure investment efficiently.

MDC appreciates the opportunity to provide feedback and would welcome further engagement as the framework develops.

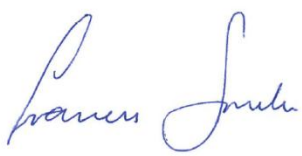
Decisions sought

In summary, MDC recommends:

1. MDC recommends that the Commission require service-level reporting for drinking water and wastewater services, supported by disclosure of material transfers, reserves, and internal loans where relevant.
2. MDC also recommends that any reporting framework align closely with the Funding Impact Statement and annual reporting requirements under the Local Government (Water Services) Act 2025, rather than creating a separate parallel reporting system.
3. MDC further recommends that the Commission adopt a staged and evidence-based approach before introducing restrictive controls on fund movements. Monitoring and disclosure should occur first, with additional restrictions considered only if evidence demonstrates they are necessary.
4. Finally, MDC asks the Commission to provide guidance on how ring-fencing requirements would apply during lawful governance or structural changes, including future council reorganisations and associated transfers of assets, liabilities, reserves, or service responsibilities.

Thank you for considering MDC's views. We look forward to further engagement as needed.

Yours sincerely,



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