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Waimakariri District Council submission on a proposed rate target model for New Zealand

1. Introduction

- 1.1. The Waimakariri District Council (the Council) thanks the Department of Internal Affairs (the Department) for the opportunity to provide feedback on the rates target model for New Zealand ('the model').
- 1.2. We support rates affordability and therefore a rates targeted model in principle. This is because we are committed to keeping rates to an affordable level for our community and have a proven track record of doing so. However, we do not support the model in its current form and have suggested recommendations to relevant inputs and methodology. Our view is that any cap should be viable, workable, and enable core services and functions to be provided while also providing opportunity for communities to have a say on the services and functions that are provided. We therefore have a strong interest in the model.
- 1.3. The Council also considers that a concurrent review of the Rating Act and methodology would aid decision making during this process. While taxation as a percentage of GDP has risen over time, local government's share has stayed at around 2% of GDP. Such a review has been identified by numerous reports (notably the Shand and Future of Local Government reports) and needs to consider ways to more appropriately share the tax take across the country. For example, returning the GST paid on rates (essentially a tax on a tax) to councils would enable these funds to be reinvested in these communities instead of being used to subsidise projects outside of their areas, while also reducing the amounts required to be paid by ratepayers.

2. Background

- 2.1. The Waimakariri District spans diverse environments, from provincial towns like Rangiora and Kaiapoi to the remote high country of Lees Valley. Of the district's 74,000 residents, 80% live in the east, with around 60% concentrated in Rangiora, Kaiapoi, Woodend/Pegasus, and Oxford. The district also has one of New Zealand's highest numbers of lifestyle blocks, with approximately 6,500 lifestyle blocks in the district.
- 2.2. Following the 2010–11 Canterbury earthquakes, working closely with national agencies, iwi partners, and our local communities, we restored critical infrastructure

and re-established essential services swiftly and effectively. The Council maintains strong and recognised emergency response capability in flood mitigation, and vegetation fire management.

- 2.3. Sustained, rapid growth since the earthquakes, along with growth projections highlighting an expected population of 100,000 by 2050 has resulted in the Council having a strong focus on infrastructure investment. Despite pressures from earthquakes and sustained growth, the Council has maintained prudent financial management. Average rates increases over the last 10 years during this growth and recovery period have been 4.83%, and Fitch has affirmed the Council's AA credit rating with a Stable Outlook (compared with ANZ and BNZ at A+). For 2026/27, the proposed average rate increase is 4.91%. Within the overall figure, the general average rate increase for most ratepayers across the district is 2.7 per cent. The Council's recovery leadership and infrastructure management have been recognised by past and present Governments and the Office of the Auditor General.
- 2.4. A significant contributor to our district's success is the way we incorporate local knowledge into planning and regulatory processes. We have consistently seen positive, balanced outcomes when communities are genuinely engaged in consent and plan change processes. This was particularly evident in our recent District Plan Review, where Councillors served on the hearings panel. Their involvement enabled submitters to speak directly with decision makers who understood the local history, context, and community identity—resulting in decisions that better reflect the realities and aspirations of our district

3. Shared Themes across the Local Government reform programme

- 3.1. Although delivered individually, the recent flurry of reforms produces a matrix forward work programme for councils that must progress cohesively to avoid unintended consequences for the sector and the communities they serve.
- 3.2. We emphasise the importance of fully understanding the implementation requirements, sector interdependencies, and the practical implications of the proposed legislative changes. We encourage active collaboration between central and local government staff to build a shared, practical understanding of how the reforms will be delivered and to support effective, coordinated implementation across the sector.
- 3.3. For example, we note the timing and significant workload associated with the Regional Spatial Plan signalled in the Planning Bill. The Spatial Plan is expected to commence this year and will therefore be developed in advance of any new regional reorganisation legislation. This Bill requires councils to have a view on regional reorganisation ahead of the implementation of this programme. This out-of-order sequencing creates additional pressure on councils, and a risk of misalignment in outcomes. It also introduces the real possibility of significant rework of spatial planning documents. This underscores the importance of aligning reform timeframes.
- 3.4. The Council is concerned that no dedicated funding has been identified to support this substantial area of reform, or any recognition of the costs that will be incurred

through the transitional period in which rates capping legislation will also potentially apply. The proposed changes represent a significant undertaking for the local government sector, and adequate resourcing will be essential to manage the interim period and achieve sustainable, long-term outcomes. While the Council supports the intent to improve efficiency, we also recognise that delivering the best reorganisation plan will incur short-term costs - costs that our ratepayers are unlikely to support without corresponding central government investment.

4. Response to consultation questions:

***Question 1 - Do you agree with the proposed economic indicators to be included in a formula setting the rates target?
and***

Question 2 - If not, what economic indicators do you suggest be included and why?

a. Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards? If not, why not?

- 4.1. We are not confident that the proposed indicators and the formula will provide a mechanism that will achieve the desired outcome of enabling councils to deliver core services¹ with a rates cap in place. We therefore cannot support the rates target, in its current form. It is a crude measure and the exceptions provided do not take into account other reforms, timing and specific circumstances faced by individual councils and simply where the majority of the community requests and supports a higher level of service.
- 4.2. The target should incorporate an independently governed local-government-specific cost index (such as an independently reviewed LGCI or a regulator-commissioned local government cost basket); separate indicators for asset and non-asset costs (for example construction cost indices for infrastructure); forward-looking inflation forecasts; a growth component for all councils; explicit allowances for interest rate volatility and depreciation; and adjustment mechanisms for unfunded mandates and exogenous shocks. These indicators are more cost-reflective and align with prudent financial management.
- 4.3. The Council supports the rates band being determined independently of Ministers to ensure this task is not political. The Council also supports the ability to seek variations. The Council supports any initiative that increases affordability for residents. However, an arbitrary limit that is not relevant to Council costs will have unintended consequences – all for the variation of a few cents per property. For example, in Waimakariri an increase of 4.91% (almost 1% above the proposed cap limit) works out to be under \$4 per week for an average property.

¹ Core services as listed in the consultation document are network infrastructure, public transport services, waste management, civil defence and emergency management, libraries, museums, reserves and other recreational facilities.

- 4.4. The proposed indicators rely heavily on CPI and national-level measures which do not reflect the actual cost drivers faced by councils, particularly infrastructure, construction, depreciation, interest costs, and growth-related pressures. Using CPI significantly underestimates local government cost inflation (LGCI) and risks underfunding core services.
- 4.5. There needs to be clarification of whether the rate applies to the average district rate (and specifically what services this excludes) or whether the rate is more granular and applies to rates that contribute to the average district wide rate. Once again this implies uncertainty indicates that not enough understanding of impacts and maximum range setting has been determined within the formula.
- 4.6. Setting a lower limit on the rates target model may be too restrictive in times where Councils choose to temporarily suppress rates due to a significant event. For example, during the COVID 19 pandemic the Council chose to hold its rates rise to 1.5% given the uncertainty ratepayers faced and the prevailing economic conditions. In these cases, councils need to then be able to resume adequate rates funding when conditions improve. The restrictive nature of the limit bands may have the perverse effect of disincentivising councils from compassionately responding to events that cause adverse economic conditions.

CPI does not measure changes in infrastructure cost

- 4.7. As set out earlier, the reliance on the CPI as a measure of price change underestimates the actual movement in infrastructure costs which are commonly accepted to have increased by much more than this. The use of CPI creates a risk of underinvestment in critical infrastructure and is not cost reflective (one of four principles Cabinet set for the policy to be consistent with).

Alternate, independent cost indices would better reflect actual cost increases

- 4.8. Taituarā in their submission have offered four principles to follow in selecting factors for the rates model. These include variables being “independently calculated” - this is that “any factor should be calculated independently from the local government sector. For example, the Local Government Cost Index may better reflect infrastructure costs but is commissioned by Taituarā and paid for by the local government sector”.
- 4.9. We suggest independence in calculation could be achieved with reference to the LGCI through independent peer review of forecast LGCI, or by any regulator seeking its own cost index based on a local government basket of goods and services. This would achieve the independence principle and may be more cost-reflective than applying the producers price index, or CPI.
- 4.10. Regardless of the index that is chosen, we consider that the model needs further development to ensure clarity, including distinguishing between asset and non-asset costs, for example through the addition of the Producers Price Index (Construction), or an LGCI type index as a measure of movement in asset costs.

- 4.11. We support the principle that any factor used should be forward looking. The current model applies retrospective measures of inflation prospectively; whereby forecast inflation indices are more appropriate to apply to forecast information.

Effective models are already in use elsewhere

- 4.12. We recommend implementing an assurance-based model similar to that applied by South Australian Local Authorities. Assurance based models subject local authorities to rolling audits suggesting improvements to financial management and planning. Improvements are published and implementation of the improvements is enforced. This would provide tailored improvements specific to each local authorities' circumstances, encouraging good quality financial management

Interest rate changes and depreciation are a significant risk factor

- 4.13. Council manages long life assets and debt is a significant funding tool used by Councils, to both fund and assist in attending to Intergenerational Equity. Interest to Rates, can be as much as 25%. Interest rate volatility therefore has material impacts on operating costs: a shift in interest rates from 4% to 6% can absorb the entire permitted increase under the proposed cap. As such, the Council considers that interest rate risk is not adequately accounted for.
- 4.14. We support the allowance for depreciation. Depreciation expenses have increased rapidly in recent years – often cited as one of the major drivers in expenditure and based largely on movements in asset values. We understand that this factor alone may test the 4 percent upper limit of the target range based on movements in asset values over recent years.² However, it is not clear how depreciation allowances are to be determined. The need for regular asset valuations and the audit requirements may require further consideration.
- 4.15. The information provided on the inputs in the model does not outline how frequently these are assessed, for example three-yearly in line with LTP cycles, annually or another frequency. This is important as the variables could change over time making the target range not reflective of current economic information and pressures. Equally, too regular change in the target range could create increased uncertainty and provide a short-term focus. The frequency of releasing and updating the target band needs to be clarified.

A growth component is essential

- 4.16. The Council considers that a growth component is an essential aspect of any rate-capping model and must apply to all councils. One of the core functions of local authorities is to provide infrastructure and services to support population growth and this is essential to support the Government's urban growth and economic development initiatives. We support an individual rate-band for each local authority that appropriately reflects the level of growth being experienced and in turn the demand on that Council to increase service levels.
- 4.17. As a high growth council it is critical for us that any growth component used in the cap is directly reflective of the growth we are experiencing. The Council notes that

² Ibid, page 18

Statistics NZ projections are not developed annually and tend to underestimate the actual growth in higher growth local authorities.³ This would need to be accounted for, potentially by allowing NPS-UD Tier One local authorities to use their own population estimates where these have been certified by the regulator as being prepared using robust data and methodologies.

Question 3. Does the maximum of the target account for council spending on core services?

- 4.18. The Council cannot guarantee that the 4% maximum will be sufficient to enable spending on core services. The Council will be required to make significant savings to meet this target. Preliminary modelling indicates it is unlikely to be sufficient without significant changes to services. Decisions on what savings will be made have not yet been taken by the Council, so we cannot comment on whether core services will be impacted.
- 4.19. Approximately 94% of the Council's rate take is used to fund core services, demonstrating that there is minimal non-core spending by the Council that could be minimised and prioritised to core spending. The cost of delivering core services has increased much faster than the CPI and much faster than a nominal 2-4%.
- 4.20. Stringent limits on rates may lead to a reduction of investment and therefore present a significant risk to the maintenance and renewal of infrastructure that would otherwise ensure efficient operation across the whole asset life. This is likely to negatively impact intergenerational equity, with future generations likely to be paying a greater share of such costs. It is therefore critical any model allows councils to maintain funding at a level that allows them to maintain and replace their infrastructure to an appropriate quality standard.
- 4.21. We understand that DIA found this occurred in New South Wales in response to a rates cap. We are concerned any cap could lead to underfunding of critical renewals and replacements within the sector, thus leading to increased infrastructure deficits, decreasing service levels and increased risks of asset failure. While not being relevant to Waimakariri, it is our understanding this scenario has been a driver of the country's infrastructure deficit – particularly with Three Waters assets. This is an example of a perverse outcome of this policy.

Question 4. What council spending will not be able to take place under this target range? Why?

- 4.22. It is too early to say what council spending will not take place under this target range, as decisions by the Council about what savings will be made to meet this target have not been taken. We cannot predetermine the spending decisions prior to a Long Term Plan.
- 4.23. However, as approximately 94% of our rates revenue is already applied to core spending there is minimal non-core spending that could be reprioritised or rationalised. Even with the Council's strong financial position and history of low rates

³ Ibid, page15

risers, the restriction from a rates cap will likely have the effect of constraining renewals and service levels unless offset by support measures.

Question 5. Are changes to the target needed to account for variations between regions and councils? What changes do you propose and why?

- 4.24. The proposal does not provide sufficient opportunities for localised differences as the only identifiable degree of 'local circumstance' in the present proposal is the suggestion that an unspecified number of councils may have a growth component added. More clarity needs to be provided on this point. The reliance on economic indicators points to a single 'band' applied nationally with population growth the only point of difference. Additional opportunities need to be provided.
- 4.25. The model assumes that all councils are at the same phase of depreciation funding or phasing this in. We are fortunate that we are setting aside appropriate funding for future renewals. Many Councils have not been able to fund their desired levels of depreciation for affordability reasons. Because councils are at different stages, the model must be able to adjust for the level of depreciation funding.
- 4.26. Asset lifecycles face the same issue with the model. Councils have different infrastructure and asset needs. Some councils require significant investment to renew older core assets and infrastructure as their lifecycle is coming to end. For other councils, this issue is less pressing, and only minor maintenance will be needed.
- 4.27. The Council considers that a growth component is an essential aspect of any rate-capping model and must apply to all councils. One of the core functions of local authorities is to provide infrastructure and services to support population growth and this is essential to support the Government's urban growth and economic development initiatives. We support an individual rate-band for each local authority that takes into account and appropriately reflects the level of growth being experienced. and in turn the demand on that Council to increase service levels. However, the Council notes that Statistics NZ projections are not developed annually and tend to underestimate the actual growth in higher growth local authorities. This would need to be accounted for, potentially by allowing NPS-UD Tier One local authorities to use their own population estimates where these have been certified by the regulator as being prepared using robust data and methodologies.

Reducing the ability to adapt to climate change and major challenges

- 4.28. A rates cap will reduce the capacity of local government to respond to major challenges such as climate change, noting that such challenges may be able to be accounted for through cap adjustments.

Ability to respond to changes in Government funding

- 4.29. A rates cap will reduce the capacity of local government to respond to changes in funding by Government. For example, the Council intends to construct a new eastern arterial route through Rangiora called the Rangiora Eastern Link. This is much needed roading infrastructure to enable growth in the East of Rangiora and reduce congestion in Southbrook. The project is estimated to cost \$37.9 million and be funded by a mixture of development contributions/levies, NZTA subsidies and debt. The estimated

debt servicing costs for the debt alone are expected to result in approximately 0.33% increases in rates in both 2028/29 and 2029/30. This alone accounts for 8.3% of the maximum increase allowed under the rates target model in these years. If NZTA funding was not at the expected levels, the proposed rates cap may mean the Council may not be able to borrow further and/or maintain the servicing costs for the debt within the cap.

Impacted ability to implement unfunded Government policy changes

- 4.30. A rates cap will also reduce the capacity of local government to respond to unfunded expenditure required by Government. Unfunded mandates are areas where Government makes policy, which is then required to be implemented by local government, but carries no finance for its implementation. This causes any imposed costs to be funded by rates. Recently Taumata Arowai levies in the 2025-2026 year resulted in a 0.4% increase to our rates alone.
- 4.31. The Regulatory Impact Assessment for rates capping recognises the presence of unfunded mandates and provides that there are necessary supporting processes to be undertaken by the regulator for these. These include awareness and quantification of such costs and a mechanism to adjust the rates target model for these. We support these recommendations to be implemented within a rates target model.

Decreased ability to support and fully benefit from major Government projects

- 4.32. We note the context of unfunded mandates generally focus on costs which are imposed by policy or legislation. In addition, councils also face project related costs which are imposed on them which may also be more difficult to respond to. An example of this for the Council locally are additional transport projects which will be needed to support NZTA's Woodend Bypass project. Local roads will require upgrades to complement NZTA's project and manage the expected impacts of 'rat running' to avoid tolls if these are imposed. Such projects can be required at short notice and rely on subsidy provision and the capacity to manage increased interest costs within rates caps for any debt funding.

5. Additional comments

The model is reliant on other reforms that regulate Council revenue

- 5.1. The introduction of a rates target model has close interdependencies with regulation of development levies, and rating or charging for water services. Therefore, the package of regulation of Council revenues needs to be considered cohesively to ensure unintended consequences do not occur from the interplay between legislation. Whilst these revenues are outside the scope of a rates target model, the model assumes that certain costs are funded via development levies, and rates and charges for water services, meaning that these costs do not require further funding from rates constrained by any rates cap.

Localised indicators would better align with the stated policy principles

- 5.2. The use of a national measure of GDP in the model is not consistent with the principle of localism set in drafting the policy. It is not clear whether localised indicators have been considered in drafting the policy and the impacts these may have on individual caps. Equally it is not clear whether this is an annualised, averaged, long or short run measure that is proposed. These matters should be explored and clarified.

- 5.3. We do not support the use of average residential numbers in the calculation. This is not reflective of commercial or council activities and any growth in infrastructure that may be required to support such industries. The use of forecast rating units would better reflect residential and commercial growth. The use of forecast rating unit growth numbers could be commissioned by the proposed regulator or Department of Internal Affairs to ensure the information is independent.
- 5.4. We support the inclusion of a council-specific measure of quality of infrastructure, however, have concerns that it may be difficult to measure quality in an objective and comparable way. Any assessment needs to consider both asset condition, performance, renewal and maintenance in a consistent way across the sector.

The application of the cap at an individual rate level is not practical and is not linked to overall rate payer affordability

- 5.5. We understand DIA have clarified that the cap would apply to each and every unit rate e.g. the rate in the dollar of value, the dollar amount in the UAGC or fixed targeted rate, the rate per hectare of land area etc. So, if the cap was 4 percent and the UAGC were \$100 per SUIP, the UAGC could not increase beyond \$104, if a per hectare charge was \$10, that rate could not go beyond \$10.40.
- 5.6. Small dollar value movements in low value rates typically exceed the average increase in rates to a ratepayer. For example, if a \$10 fixed charge to fund tree maintenance was increased to \$11 it would exceed the cap individually at 10%, but the average increase in a ratepayer's bill may be within a 4% cap. In considering affordability in this scenario, stakeholders would be concerned with the average increase being within the cap rather than a 10% increase in a fixed charge.
- 5.7. The monitoring of the cap would therefore be more granular, requiring further time and effort from local authorities and regulators to ensure compliance. Where the same outcome for ratepayer affordability could be achieved by applying the cap at an aggregated level.

We do not support the application of the cap at an individual rate level. If a cap is to be applied, it should be applied at the aggregate level.

6. Implementation of reforms

- 6.1. The truncated process used to introduce the current suite of reforms has meant limited consultation with local government on the specifics of each Bill. This does not allow much time for those that are expected to implement the changes to understand the implications or the costs that may be incurred from the changes.
- 6.2. Implementation of these amendments will require significant resourcing of people, funding and time. We ask that the Government does not underestimate this. We also ask the Government to carefully consider the sequencing of the reforms to minimise the impact on Council resources. The Government should look to share costs with local government for any new features being introduced.

6.3. We request the Government engages with Taituarā to develop a plan and process for implementation of these amendments. An implementation programme that allows for alignment between these amendments, previous resource management reforms and other legislative changes that impact local government would be welcomed.

6.4. We recommend that:

- either the regulator or the Department be required to prepare an annual report identifying new responsibilities imposed on local government, and any steps taken to mitigate the additional cost imposed by those new responsibilities;
- the model provides the regulator with the ability to adjust the cap to allow for adjustments where there have been events exogenous to the formula that have imposed costs on the sector;
- the Government replaces all existing limits on local government's ability to set fees and charges for statutory functions with a power to charge actual and reasonable costs;
- clarity is provided on how rate band variations will operate;
- additional opportunities for rate band adjustment for localised differences are provided;
- the LGCI should be referenced through independent peer review of forecast LGCI, or by any regulator seeking its own cost index based on a local government basket of goods and services;
- the model needs more clarity, including distinguishing between asset and non-asset costs;
- a growth component applies to all Councils;
- further clarity is provided on the model use of a national measure of GDP;
- interest rate volatility is accounted for;
- clarity is provided on how depreciation allowances are to be determined;
- rates can be increased in subsequent refresh periods to recoup over-restriction, or a washup type mechanism is provided;
- third party rating is excluded from the model;

- the Government engages with Taituarā to develop a plan and process for implementation of these amendments that considers implementation costs and reform sequencing;
- The Government considers working with our Council, Taituara and the wider Canterbury region to test how the proposed amendments will work in practice.

6.5. The Rating Act and methodology requires a concurrent review, which would better serve its community and Ratepayers (this was recommended in the Shand report and the Future of Local Government report, yet has not been fully implemented). Such a review needs to consider ways to more appropriately share the tax take across the country. For example, returning the GST paid on rates to councils (essentially a tax on a tax) would enable these funds to be reinvested in these communities instead of being used to subsidise projects outside of their areas, while also reducing the cost of rates on ratepayers.

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The Council would like to speak in support of its submission.

Yours faithfully



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