4 February 2026

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Submission on a "rates target model for New Zealand"

Thank you for the opportunity to provide feedback on the proposed rate target range proposals. Please see our points for consideration below.

Kapiti Coast District submission

1. We understand that overall intent of the suite of Government legislative and policy direction passing through is to unlock economic and housing growth, and for the costs of this to be met by the users of new or enhanced infrastructure and services. The Kāpiti Coast is a high growth district with a large fixed-income population[1] and we agree that getting the funding basics 'right' is an important shared focus for local and central bodies.

2. More generally, we appreciate that New Zealanders are grappling with an economic setting where individuals and families ability to afford the basics of day-to-day life. We are all experiencing a growing cost of living crisis, while simultaneously having to cater for accelerated growth, housing, and infrastructure demands.

3. We agree that "growth should pay for growth", and rates increases should be carefully managed. However, we do not think that the focus on reducing rates is getting to the heart of the matter – it will not address the broader cost of living challenges that many face; and, if history repeats, will result in further degradation in social and physical infrastructure and community settings.

4. We propose that a review of public related funding settings is more complex than this. To get this review 'right', we would expect all available funding settings to be considered concurrently, rather than as separate options.

5. Overall, we believe a more reasonable approach would concurrently review statutory settings around 'who pays' across available funding mechanisms: rates-funding, tax-

[1] 27.2% of the Kāpiti district's population is 65-years or over (https://regions.infometrics.co.nz/kapiti-coast-district/population/age-composition).

funding (via central government), private-funding (including development levies and financial contributions related to growth), and fees/user charges.

- The review should include how collected tax revenue of around **$129.4 billion** (FY 2025/26), and within this GST collected of around **$30 billion** (FY 2025/26), could be 'best used' to ensure central and local service provision is: accessible, available, and affordable. This could involve introducing stronger MOUs or contractual arrangements between local and central government for services that are delivered best locally, as is seen in the New South Wales jurisdiction.

- This broader approach would ensure that critical services within communities are not bluntly cut, but that appropriate funding for services is clarified and confirmed across funding mechanisms.

- Currently, we are concerned that the proposal to limit annual rates increases to between 2-4% is pushing a conversation with communities that the only option is to cut or stop services which a) work and b) are needed, rather than determining the most appropriate funding mechanism for needed services. At a local level, we are seeing this discourse exacerbate tensions between government and communities at a time when there is growing international and community unrest, and trust with government is perhaps at an all-time low, which is unhelpful.

6. Further to this, we would like a stronger focus on mutual accountability for reducing costs. Part of this must include stronger <u>quality</u> requirements, or criteria, to be established for central government *Regulatory Impact Assessments* so that they accurately assess the financial impact to local government and rate payers. Of note:

   - The proposed Resource Management Act changes alone are estimated to increase rates by 2% nationally. The estimated cost to the sector is ~$800 million in establishment costs and $195 million in ongoing annual costs. However, such change, which may be a national priority, does not set any funding from tax revenue aside to enable local government to take implementation steps.

   - With more than 50 pieces of legislation outlining obligations on TLA's, any sustainable funding model must recognise the breadth of obligations local government must respond to, while also accommodating appropriate levels of maintenance, renewals, and investment in growth infrastructure.

7. We have seen and are supportive of the submission from Taituarā on this proposal.[2] Further to the points made in the Taituarā submission, we add the following points:

   We need a more sustainable funding model between local and central government

   7.1. While opportunities to improve efficiencies or make cost savings exist in local government, we do not accept the assertion that local government is spending excessively. Rates are a significant expense for homeowners, but they are one of

[2] https://taituara.org.nz/wp-content/uploads/Consultation-on-a-rates-target-model-for-New-Zealand.pdf

many outgoing costs households face with far more tax being paid to central government than local.

7.2. We encourage the Government to look more broadly at where household cost pressures are coming from and consider better support options for low and fixed income households. For example, the *Rates Rebate Scheme* could be strengthened, and eligibility widened to support rates affordability for low and fixed income households.

7.3. The long-term sustainability and affordability of local government cannot be achieved by shifting costs from one part of our community to another. Significant trade-offs between activities would be necessary under the current proposal. There is a real risk that infrastructure investment, asset maintenance and renewals, and service levels would reduce if rates increases were capped. Over time, this could cause asset quality to reduce and further add to New Zealand's infrastructure deficit.

7.4. Social, economic, and cultural activities will take the primary hit under this proposal, as **councils** struggle with debt servicing costs, reduced creditworthiness (making debt more expensive[3]) and higher variable interest rates over time. Of note:

7.4.1. Support for sectors such as arts, heritage and tourism, will reduce unless alternative sources of funding can be identified.

7.4.2. These sectors make a substantial contribution to local economic development and social cohesion in communities, and support local growth by making our districts the kind of places people want to live in.

7.4.3. A reduction in council support could lead to funding gap for the community and not-for-profit sector, threatening the survival of some organisations. Should these activities be supported to continue, a review of the most appropriate funding for such services needs to be undertaken.

7.5. New Zealand faces intergenerational challenges in climate change, the cost of living, housing, infrastructure, inequality, and social inclusion, requiring urgent and transformative action. They require central and local government to work together in partnership to respond to them. Rate-capping of any form risks weakening this relationship and makes councils more reliant on user charges and on outside investment (including from central government) to deliver local infrastructure and services.

7.6. Local government needs a sustainable funding system that does not just shift costs across sectors of our communities or across generations. The sector needs a better set of funding and financing tools and strategies. While the proposed changes to development contributions is a good start, there is more that could be done.

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[3] See Standard and Poors (2025), *New Zealand Local Government Brief: Rates Cap Tightens the Financial Screw.* "… if councils are inhibited in their ability to lift future rates, they could further struggle to balance the books or lean more heavily on debt to finance capital expenditure. This will weigh on credit quality."

7.7. Rather than an arbitrary and blunt policy tool like rates capping, Council would encourage focus on enabling and incentivising local government to use alternative funding and financing tools (e.g. SPVs and asset recycling). In the absence of local government's constitutional ability to rate Crown land (a foregone income of circa $75 million[4] for Kāpiti since 2002) we believe the proposal should consider the Crown sharing GST paid on rates, other council service fees, and charges with local government; or removing GST on these charges all together.

7.8. We also note that this proposal is due to take effect at a similar time to the required regional reorganisation plans under the Simplifying Local Government proposal. Any amalgamation of governance or service delivery arrangements that results is likely to incur significant initial costs. We support Taituarā's not that this poses a risk to the ability of councils to implement such reform and would recommend that these be excluded from any rates target range or be supported by additional funding from Central Government.

More nuance needed in any funding criteria or model

7.9. Council does not support implementing a rates cap. However, in terms of the proposed model, we note:

7.9.1. Relying solely on resident population as the measure of incidence and growth negatively skews the model, overlooking the impact of transient populations in holiday destinations and high-tourism areas. It may also disadvantage districts with significant commercial or industrial activity, as well as rural areas with small populations.

7.9.2. A cap at individual rate level will be unhelpful, as it will (e.g.) prevent Councils sensibly "rebalancing" between different rate types where this might be appropriate for good reasons (e.g. volumetric vs fixed, or better reflecting the true cost of delivering certain services).

7.9.3. We submit that any rates target range should apply to the total amount of rates collected rather than individual rating components. This would be a simpler model to administer and allow for a rebalancing between different rates where required. The current proposal applies the target range at the individual level to ensure every ratepayer has the same level of increase every year – over time such an approach will limit councils' ability to manage their rating system optimally.

7.9.4. Council does not support the use of CPI alone as an indicator of direct cost change. CPI is not an accurate reflection of cost driver and should be supplemented by the addition of the Producer Price Index as a measure of change in asset costs. We would also note that a larger and higher quality asset base requires more in depreciation funding which comes with requires a higher rates burden.

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[4] Relative to Crown owned land which is currently not rateable; however, if even land use rates were applied would equate to at least $75 million, and going forward $3-4 million per annum.

7.9.5. The proposal also creates problems when councils complete their three-yearly property revaluations, an issue which does not appear to be considered in the proposal. Revaluations often rebalance rates distribution across a district in response to changes in property values. It is not clear how these adjustments could continue to occur under the current proposals and the removal of the ability to rebalance rates adequately will generate tension within communities.

Growth flexibility must be a feature of criteria for any rates model

7.10. If rates target ranges are progressed there must be flexibility to recognise the unique pressures experienced by high-growth councils. Districts such as Kāpiti face increasing demand for infrastructure capacity, service expansion, and accelerated renewal of existing assets. We are also actively and successfully pursuing accelerated economic growth. A uniform approach to rates capping risks constraining our ability to meet the needs of our rapidly expanding communities.

7.11. Council recommends the inclusion of an explicit growth adjustment within the proposed formula to reflect population projections and demographic change. The population trajectory in Kāpiti indicates continued, sustained growth over the medium term. A model that does not account for this will structurally underfund Kāpiti and other growth councils, reducing our ability to invest in essential infrastructure and core services which support the Government's own objectives in housing, urban development, and economic growth and development.

7.12. A purely population driven adjustment is not sufficient, a regionally based adjustment not workable. What will be required is district level adjustments reflecting both residential and commercial/business growth. These could be based on the work councils do in developing their chapters of the three yearly Housing and Business Assessment (HBA). Consideration could be given to making a rates target model based on three years rather than every year, (i.e. maximum increase across the 3-year LTP timeframes) supported by the triennial HBA.

More nuanced and clarity for criteria for variations

7.13. We request a broader scope for variations to the target range and recommend clear criteria be developed to support expenditure outside of that proposed (resilience investments, climate adaptation programmes, and disaster recovery or mitigation expenditure (not the immediate emergency funding).

7.14. The ability to seek variations—with certainty about eligibility—is critical for councils exposed to coastal hazards, seismic risk, or severe weather events. These processes should be flexible enough to manage evolving understandings of the risks councils must manage in their communities, including potential flow on impacts to resident's insurance costs if infrastructure reducing these risks in not able to be invested in. Variation processes should also consider the need to integrate with Long Term Plan and consultation requirements.

Minimum allowances to protect asset maintenance, renewals and quality

7.15. If progressed, a rates cap will need to be district specific to avoid a one-size-fits all averaging that will not meet the needs of different councils which are in different positions with their asset management. A minimum level of allowable increase must be provided for that is practical for each district and is essential to ensure councils can maintain depreciation funding and appropriately resource asset renewals. Underfunding depreciation creates long-term risk and pushes unavoidable costs onto future ratepayers. A stable, predictable minimum with a district specific margin will maintain the integrity of asset management planning and safeguard essential community infrastructure.

7.16. A more comprehensive assessment of the impact of the suite of changes to funding and financing for local government is needed. Of note:

7.16.1. Recent and upcoming legislative changes[5] which limit councils' discretion over where growth can occur within their districts will also constrain alternative funding to rates.

7.16.2. While some of these reforms aim to establish a more robust development levy framework, such levies typically only cover the cost of the additional or newly-used capacity required to support growth.

7.16.3. From an asset management and financial prudence perspective, it is often most efficient to upgrade infrastructure for existing users at the same time—but these wider upgrade costs must be funded through rates and are difficult to forecast. Missing the opportunity to align upgrades with growth-driven works can mean losing the chance to deliver them at the most cost-effective price and time.

7.17. We understood the rates target range formula included a measure of the quality of infrastructure. As with the population growth component, a measure of infrastructure quality might vary between councils and points to a band for each council. Such a measure avoids unduly penalising communities and councils where there has been a historic legacy of underinvestment in infrastructure. Councils doing their job effectively, already, should not be penalised.

Supporting prudent financial and operational management, and budget obligations

7.18. Introducing a rates cap range may undermine Council's risk management strategies related to insurance, at a time when premiums and other insurance conditions are increasing. This will reduce councils' ability to self-insure through limiting the building of financial reserves.

7.19. The proposal also severely limits the ability for councils to pay down debt and create additional borrowing capacity. This reduces the ability for councils to improve fiscal resilience to sudden shocks and emergencies. We have set a direction with our community through our Financial Strategy that focuses on reducing our debt over the next ten years. This relies on average rates increases of 7% per annum – a strategy that would not be possible under the proposal.

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[5] Fast-track Approvals Act 2024; Planning Bill 2025; New Development Levies regime

Other statutory requirements

7.20. Under the Local Government Act 2002, councils must manage their finances in a prudent manner, keeping a 'balanced budget'. It is not clear how councils will manage the resulting tensions between the new requirements of the rate cap and these wider financial obligations. Negative short-term behaviours such as deferring maintenance or reduced investment in long-term resilience will quickly undermine the whole point and purpose of these 'good financial management' obligations.

7.21. Perverse results from this tension may see a growing unwillingness from local government to take on requests from central government without funding, undermining Government's own objectives (as for instance with the Tourism Growth Roadmap).

Shifting to user pays further disadvantages the most vulnerable

7.22. Council acknowledges the intention to strengthen user-pays mechanisms and supports this in principle. However, this may disproportionately affect low income households, older residents, disabled people, and others with limited financial flexibility.

7.23. While shifting costs through user-pay regimes provides people the choice to use or not, in many cases, it risks further excluding those on restricted incomes and vulnerable in our communities and provides little of the social equity that fosters strong communities that are respectful, inclusive and diverse.[6] It may also incentivise unwanted behaviours (e.g. increased illegal dumping due to higher transfer station charges) which ultimately generate more costs for Councils to respond to.

7.24. If the path of user pays is to be further pursued, the Council proposes that any expansion of user charges is paired with:

- robust remissions and rebates,
- hardship assistance options, and
- clear safeguards to protect vulnerable residents.

7.25. As Taituarā notes, many of our services (especially in the regulatory areas related to alcohol licensing, food health and safety for example) have statutory maximum charges, most of which have not been reviewed for many years. Lifting these statutory maximums (while adding frequent review mechanisms), or removing them altogether, will be imperative if the ability to meet these costs through rates is to be restricted by the rates cap.

Further clarification is needed on reporting standards and regulator engagement

[6] Te Tupu Pai, Growing Well: Our strategy for enabling sustainable growth in Kāpiti. Kapiti Coast District Council, p.6. https://www.kapiticoast.govt.nz/media/42mmy4nr/growth-strategy-2022.pdf

7.26. Council supports the Taituarā submission advocating that the Commerce Commission become the regulator; or alternatively the Officer of the Auditor General.

7.27. We request further detail on how the new regulatory regime will be funded as well as the expected reporting requirements, data standards, and regulatory oversight processes. It is important that reporting obligations:

- are proportionate to council size and capacity
- avoid duplication with existing requirements, and
- minimise any unnecessary compliance burden.

7.28. Reporting requirements should be easily integrated with audit and reporting requirements that council are already required to do, to be as efficient as possible. Predictable and constructive engagement with a regulator will support councils to meet expectations without diverting valuable resources away from service delivery and infrastructure investment.

The transition period will be critical – we must get it right

7.29. To date, the proposals have been light on transition matters. Council welcomes the 1 July 2029 commencement date, providing council with the time to investigate and introduce alternative service delivery strategies that may help restricting cost escalations. However, we note that this falls in the third year of the 2027-2037 Long Term Plan. If these plans are to implement the rates target range, Council will need to know the metrics against which the cap will be assessed for the plan to be cognisant of the caps coming into force. Alternatively, the Government could consider a commencement date of 2030 to align with local government long term planning cycles.

7.30. We agree with the Taituarā submission, that any ‘guidance’ to be prepared by DIA in the interim will need to relate in some way to the level of rate increases deemed appropriate or acceptable. The earlier such guidance is in place the better.

Conclusion

While Kāpiti supports the intent of improving rates affordability for our communities, we do not believe that this should be done at the expense of maintaining our assets, reducing our debt and delivering the services our communities have asked for.

Rates capping will not progress our society on any of intergenerational challenges we face (e.g. climate change). Unless the model is well-tailored to individual district needs, rates caping risks stifling development, creating greater inequity, reducing social cohesion and public trust in government, and generally working against the Government’s growth agenda.

We look forward to continued engagement as the policy and regulatory settings progress.

Yours sincerely

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