Submission – Rates Capping

SOUTH WAIRARAPA DISTRICT COUNCIL
Kia Reretahi Tātau

Introduction

South Wairarapa District Council appreciates the opportunity to make a submission to the Department of Internal Affairs on the proposal to introduce a cap/target for local government rates.

We have also contributed to the collective submissions from Local Government New Zealand (LGNZ) and Taituarā but feel that such a significant proposal warrants a separate submission from our council.

1 Executive summary

1.1 Position

South Wairarapa District Council (SWDC) opposes the introduction of a statutory rates cap/range in principle. It constrains local democratic decision-making, is not cost-reflective of council activities, and, if implemented as proposed, would degrade service levels and infrastructure over time. This position aligns with the assessment from Local Government New Zealand (LGNZ) assessment and the independent economic analysis commissioned by LGNZ.

The proposed target fails to affect its stated purpose. The model anchors a maximum annual increase to national GDP-based metrics and applies the control to the rate price (per SUIP/rating unit) rather than total revenue. This design

i. interferes with the autonomy of local government in setting funding policy,
ii. ignores that local government cost drivers diverge materially from CPI and national GDP,
iii. fails to recognise local growth dynamics,
iv. continues to result in underfunding of infrastructure replacement & upgrades, and
v. can force councils to over-collect relative to need when rating units increase or during valuation reset years—undermining affordability and prudent financial management.

The proposal demonstrates lack of understanding of the interactions between the relevant legislation considered in setting budgets, funding policies, and calculating & setting rates at a property and council level. Key legislative requirements come from:

- The Local Government Act 2002, (LGA)
- The Local Government (Rating) Act 2002, (LG(R)A)
- The Rating Valuations Act 1998 (RVA)

1.2 The national environment

- National fiscal impact: Had a 4% upper band, applied to rates revenue, been in place in 2023 and 2024, councils would have collected $957m less in rates which would result in renewal backlogs and constrained essential services.
- Local growth dispersion: About 28% of councils experienced population growth above the national average over the last decade, meaning a single national per-capita adjustment systematically underfunds faster-growing areas.
- Resident population needs to be defined and queried as to why it is being used as the key driver for infrastructure and facilities requirements. A district with significant second home and visitor population still requires the same facilities as if those people were full-time residents. One purpose of local government is to support economic development, but resident population does not consider volume and levels of service required by businesses.

1.3 SWDC specifics

Direct revenue effect: SWDC would have collected $3.9m less across 2023–2024 under a 4% cap—material for a small, high-exposure council.

Known step-pressures in our LTP: A 21.9% roading requirement lift in 2027/28 (end of 100% Special Purpose Road subsidy on Cape Palliser Road, a contract reset, and stranded overheads post-waters transition), aging community assets, rising insurance, and increasing administrative burden of national reforms are non-discretionary and do not correlate with CPI/total GDP.

South Wairarapa is a geographically large district with a relatively low resident population base. We have 671km of local roads, 63km of footpaths, and 140 bridges & culverts. The majority of the roading network, particularly the bridges, were built approximately a hundred years ago and we are now struggling to sustain them in the face of increased heavy vehicle traffic, visitor traffic, and flooding/erosion events. The geology of South Wairarapa is mostly that of gravel & sandstones, which is vulnerable to shifting & erosion. These landscapes require frequent maintenance and shoring-up, which is increasingly costly.

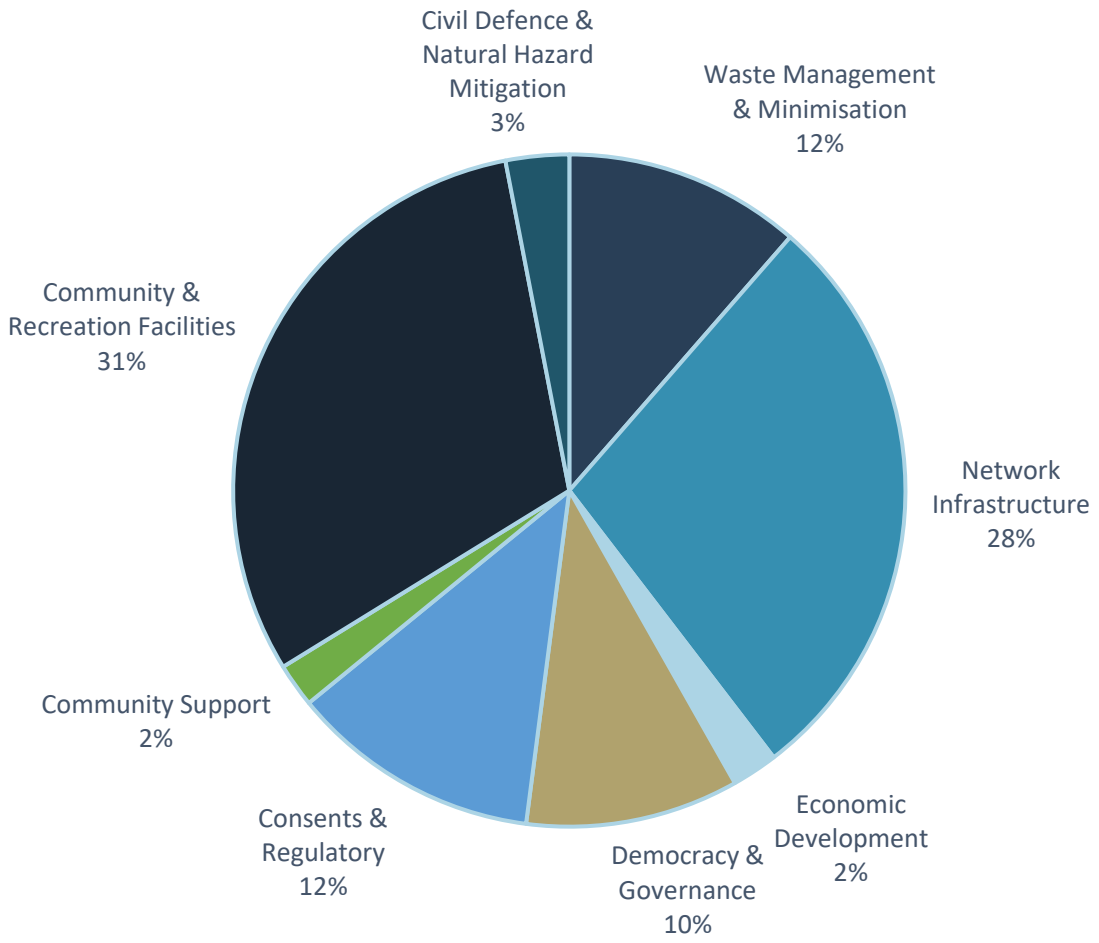
Rates capping will replicate the same structural underfunding that has occurred in water services. By constraining revenue below what is required for renewals and resilience improvements, councils will face a growing backlog of essential works—particularly in roading. Dozens of bridges across South Wairarapa are approaching end-of-life, and a cap would force deferral of renewals, exposing communities to the same risks that accumulated in water networks over decades.

South Wairarapa experiences significant population shifts on weekends and during holiday periods. We have a large proportion of weekend residents and properties used for tourism. Setting rates increases based on growth of normally resident populations ignores the impact of

"weekenders" and tourists on our facilities and infrastructure. People who own multiple residences pay rates on all those residences, expect the benefits of all resident districts, and should therefore be counted to the growth of all districts.

Virtually all the revenue collected funds core activities. Just under 2% of our rates revenue is used to fund local grants that support youth & community programmes, and events that bring visitors into the district. In the below chart these are labelled "Community Support" but also supports the economy in South Wairarapa as our youth are key recipients of this funding.

SWDC Rates (waters removed) 2025 to 2034



1.4 Increases in waters charges will be far higher than rates

Over the past five to six years, Council's most significant costs have occurred in the three waters — water supply, wastewater, and stormwater — with the cumulative rise in SWDC rates for waters being 25% higher than other Council activities over the last four rating years.

This trend is clearly reflected throughout our recent Annual Reports, which show that water activity costs have consistently exceeded budgets or under-performed against service targets due to historically low capital investment and the growing need for network renewals. For example, the 2024/25 Annual Report highlights that several key water performance indicators were missed largely because major renewals had been deferred for many years, and that reactive maintenance costs, particularly in drinking water networks, continue to drive operating expenses upward.

The 2023/24 and 2024/25 reports also show that water supply, wastewater, and stormwater each require significantly higher levels of ongoing maintenance and capital expenditure compared with other council activities such as community infrastructure, or roads.

These trends make it clear that substantial upgrades, renewals, and compliance-driven improvements — many of which have been deferred for decades — are now falling due at the same time. This places a large and unavoidable financial burden on current communities and, even with the change in delivery model to that of a joint CCO, the underlying asset condition and investment backlog remain, meaning the impact on households will continue. As water charges become more transparent and are billed separately, these increases will become more visible to ratepayers, creating additional pressure on the cost of living for many households.

In short, while Council has made considerable efforts to manage costs across the organisation, the scale of water infrastructure renewal now required means these activities will continue to drive most future cost increases on households. The long-term structural reality shaped by ageing assets, rising compliance standards, and the need for resilient and safe water networks will exist for the majority of the next two decades.

Importantly, those paying the water charges are also ratepayers.

1.5 Recommended changes

If Government proceeds with some form of rate capping scheme, essential design changes are needed:

- Replace the total-GDP anchor with general government nominal GDP; localise the population factor using each council's 10-year population growth (or apply a defined top-up for high-growth areas).
- Add a transparent cost-shifting pass-through (e.g., Emergency Management Bill, RM system changes, structure of local government, MPI levy collection, MBIE eInvoicing & prompt payment costs, etc.) on top of the upper band.
- Define measurable capex parameters (including treatment of depreciation and asset revaluations) and publish data standards to enable consistent monitoring.
- Replace the price control with a revenue target/range (if a constraint must exist) to avoid over-collection and to preserve efficiency incentives.
- Exclude funding for core infrastructure from the rates cap to prevent a similar pressure on roading that has occurred on water infrastructure.

The current proposal does not meet the Government's own design principles of being transparent, localised, and cost-reflective. It would impose significant service and infrastructure risks nationally, with outsized impacts on small councils like SWDC. A collaborative fix focused on real cost drivers, local growth, and explicit treatment of cost-shifts is the only viable pathway.

2 Financial sustainability

Financial sustainability in local government is addressed by the balanced budget requirement of Section 100 of the Local Government Act that requires councils to rate for the net costs of operating and maintaining facilities & services, plus a prudent consideration of the ongoing cost of infrastructure.

2.1 Problem mismatch: actual cost drivers vs CPI/GDP anchors

Council cost drivers (construction, heavy civil engineering, water, insurance, compliance and labour) have materially outpaced CPI since 2019.

- Heavy engineering operating indices have increased by roughly 34% compared to headline CPI of roughly 29% over the same period.
- Shortages in technical fields such as roading, planning, and engineering have seen councils increasing salaries in these areas to attract people with sufficient skills and knowledge. Whilst vacancies go unfilled councils cannot slow-down or turn down work, so consultants and contractors are often used to plug gaps.

- Insurance costs escalate depending on global events and risk perception. Whilst these increases are indirectly factored into the housing component of CPI, they are volatile and are becoming a large proportion of councils; costs.
- In terms of funding asset renewals, each council makes decisions around how much depreciation to fund and on what assets. Choosing not to fund depreciation on all assets has been a historical lever that is used to reduce the impact of asset value increases on rates and is an important part of financial strategy that councils currently have autonomy over. The expectation that we would be fully funding depreciation would have approximately a $4m impact on rates by 2029, which would compound rates burden pressures over the coming three years.
- Borrowing costs are also volatile and impacted by national and global economic conditions. Where improvements to the standards of infrastructure, or increases to the capacity of networks, create the need to invest in assets this is not a smooth annual increase that can be funded by rates, but rather it is a "lumpy" spend that is funded through borrowing and then passed on through rates and contributions levied on developers. Fluctuations in demand for development leave councils open to situations where infrastructure is planned & developed, and the growth doesn't take place.
- An assumption that council is spending on areas outside of the "core" purposes of local government is one of the key bases for the cap. Capping rates price increases does not address this, and a set of benchmarks for reporting would be an effective way of making councils more accountable for spending.

2.2 National growth anchors miss variations

A single national population adjustment (around 1.5% p.a.) ignores local variations. Over the last decade almost a third (28%) of councils exceeded national population growth.

2.3 SWDC-specific impacts

According to Infometrics estimates, SWDC would have collected $3.9m less over 2023–2024 under a 4% cap on total rates revenue.

3 Design defects creating perverse outcomes

3.1 Impact on local autonomy in setting funding policy

The cap intrudes on locally determined funding policy rights & responsibilities under the LGA and the LR(R)A, limiting elected members' ability to balance general vs targeted rates, rates vs fees/charges, and levels of service through the LTP and annual plan processes.

3.2 Rate-price vs revenue; SUIP growth and revaluation years

Because the proposal caps the price per $ of property value, rating unit, or SUIP rather than total revenue, councils can be forced to increase the price even when required revenue is flat, leading to over-collection when rating units grow through subdivision & development.

3.2.1 Growth in number of properties

Take a hypothetical district with 10,000 SUIPs, the UAGC is $500 in year 1 and revenue collected is $5m. In year 2 council's activities are forecast to cost 2% more, but a retirement home subdivision has occurred and there are now 10,200 SUIPs. The council currently would rate $5.1m and divide that by 10,250 making the UAGC stay static at $500. However, under the proposal of increasing the rate price rather than the revenue, the minimum increase of 2% the UAGC would have to be $510, and Council would collect $5.2m. The minimum price increase also does not allow Councils to make autonomous decisions on levels of service, nor for efficiency savings to be realised.

3.2.2 Revaluation of property value

Revaluation years further distort outcomes as rating-base denominators shift independently of required revenues. As rating valuations are an instrument of the Rating Valuation Act, councils cannot choose to smooth the impact and are tied into a three-yearly cycle. A worked example including rating valuation interaction with the cap/target is included in the appendices.

3.3 Undefined/opaque capital parameters

Key capital funding inputs such as depreciation and "quality of infrastructure" are undefined and lack measurable, auditable data sources at council level. Without clarity (data definitions, sources, frequency), the formula cannot be modelled to project, nor monitored after the fact, at reasonable cost.

4 Cost shifting from central government

Central-government decisions are a material driver of local costs, alongside mandated processes and compliance. A workable model must either fund cost-shifts directly or add them on top of the upper band, with the regulator monitoring and reporting on cost shifting. Recent examples of costs incurred by local government due to requirements from central government include:

- Emergency Management Bill implementation costs (national estimate).
- Resource Management system establishment and ongoing administration (national estimate), with local compliance workload.
- MPI food business levy administration (low value, high transaction cost).

- Rates rebates processing and archival compliance.
- Development levies regime: model development and ongoing maintenance.
- Environmental and planning regime changes: additional tools, independent checks, assurance.
- Audit fee escalation; increased legal review requirements.
- Timing risk and shortfalls in Waka Kotahi co-funding decisions falling back onto rates.

5 Variations regime: administrative and timing risks

Experience from Australian regimes shows frequent, resource-intensive variation processes with limited relief from underlying pressures. For small councils, assembling annual evidence packs to justify variations inside LTP/Annual Plan timelines imposes significant administrative burden and cost.

6 Equity/affordability implications of forced user-pays

A hard price cap incentivises shifts to user-pays where feasible (dog control, seniors' housing rents, facilities), undermining intentional public-good funding choices made by councils under sections 101 to 103 of the LGA. Part of this policy setting process reflects the fact that user pays regimes create significant impacts on lower-income households and smaller communities, while visitor and second-home demand continue to impose service costs not captured by resident-based metrics, and not easily passed on through charges. The services that councils provide carry public benefits through supporting the physical, intellectual, and emotional wellbeing of our communities, e.g. swimming pools, libraries, and outdoor spaces.

User-pays charges often come with administrative costs that can significantly increase the cost of collecting revenue to fund services. An example would be the free outdoor swimming pools that SWDC provides during the summer months. To impose an entrance fee would require staff time and technology resource to collect. The current use of rates revenue to fund the pools is much more administratively efficient.

7 Constructive alternatives if a cap proceeds

- Replace the CPI/total-GDP anchor with a local government-specific index, with localised population factor, and recognition of the differences between metro, rural, and regional council cost profiles.
- Add a transparent cost-shifting pass-through (e.g., Emergency Management Bill, RM system changes) on top of the upper band.
- Define measurable capital parameters (including treatment of depreciation and asset revaluations) and publish data standards to enable consistent modelling and monitoring.
- Replace the price control with a revenue target/range (if a constraint must exist) to avoid over-collection and to preserve efficiency incentives. A standardised metric for reporting growth-adjusted rates rises would be preferable to a cap as this would retain the democratic autonomy of communities to determine their local council-provided facilities and services.
- Establish standardised data definitions and reporting (rates changes, rating units, cost indices) to enable transparent monitoring and reduce councils' compliance burden.

8 Appendices

8.1 Wairarapa local impact table

Assumed scenario: Maximum **4%** upper-band cap applied in **2023** and **2024**. Infometrics estimates of the difference between actual rates collected and the amount that would have been collected if the cap had applied. Figures are cumulative across the two years.

Council	2023 Actual ($m)	2024 Actual ($m)	2023 If Capped ($m)	2024 If Capped ($m)	2023 Difference ($m)	2024 Difference ($m)	Cumulative Difference ($m)
South Wairarapa District	21.3	25.8	20.8	22.4	−0.5	−3.4	**−3.9**
Masterton District	37.7	40.8	36.6	38.8	−1.1	−2.0	**−3.1**
Carterton District	16.3	17.7	15.6	16.7	−0.8	−1.0	**−1.8**

Reading the table: "Diff" shows the reduction in rates revenue if the cap had applied. For SWDC, the model would have removed **$3.9m** over two years—funds otherwise available for renewals and core services.

8.2 Worked example of applying increases to rate price rather than revenue

Example of impact on roading rates							Current rating system				Minimum rate price increase				Maximum rate price increase			
	District Valuation Change	Capital Value (CV) of the whole district	Inflation	Rates cost of Operating	Rates cost of Capital	Budget driven rates requirement	Rate price	Total rates levied	Annual Total Rates Change		Rate price 2%	Rates levied total	Annual Rates Total Change		Rate price 4%	Rates levied total	Annual Rates Total Change	
Year 1		$10,000,000,000		$ 3,250,000	$ 2,750,000	**$ 6,000,000**	0.00060000	$ 6,000,000			0.00060000	$ 6,000,000			0.00060000	$ 6,000,000		
Year 2		$10,000,000,000	3%	$ 3,347,500	$ 2,958,060	**$ 6,305,560**	0.00063056	$ 6,305,560	$ 305,560	5.1%	0.00061200	$ 6,120,000	$ 120,000	2.0%	0.00062400	$ 6,240,000	$ 240,000	4.0%
Year 3	20%	$12,000,000,000	3%	$ 3,447,925	$ 3,172,362	**$ 6,620,287**	0.00055169	$ 6,620,287	$ 314,727	5.0%	0.00062424	$ 7,490,880	$ 1,370,880	22.4%	0.00064896	$ 7,787,520	$ 1,547,520	24.8%
Year 4		$12,000,000,000	3%	$ 3,551,363	$ 3,393,093	**$ 6,944,455**	0.00057870	$ 6,944,455	$ 324,169	4.9%	0.00063672	$ 7,640,640	$ 149,760	2.0%	0.00067492	$ 8,099,040	$ 311,520	4.0%
Year 5		$12,000,000,000	3%	$ 3,657,904	$ 3,620,445	**$ 7,278,349**	0.00060653	$ 7,278,349	$ 333,894	4.8%	0.00064945	$ 7,793,400	$ 152,760	2.0%	0.00070192	$ 8,423,040	$ 324,000	4.0%
Year 6	-5%	$11,400,000,000	3%	$ 3,767,641	$ 3,854,619	**$ 7,622,260**	0.00066862	$ 7,622,260	$ 343,910	4.7%	0.00066244	$ 7,551,816	-$ 241,584	-3.1%	0.00073000	$ 8,322,000	-$ 101,040	-1.2%
Year 7		$11,400,000,000	3%	$ 3,880,670	$ 4,095,817	**$ 7,976,487**	0.00069969	$ 7,976,487	$ 354,228	4.6%	0.00067569	$ 7,702,866	$ 151,050	2.0%	0.00075920	$ 8,654,880	$ 332,880	4.0%
Year 8		$11,400,000,000	3%	$ 3,997,090	$ 4,344,252	**$ 8,341,342**	0.00073170	$ 8,341,342	$ 364,855	4.6%	0.00068920	$ 7,856,880	$ 154,014	2.0%	0.00078957	$ 9,001,098	$ 346,218	4.0%
Year 9	15%	$13,110,000,000	3%	$ 4,117,003	$ 4,600,139	**$ 8,717,142**	0.00066492	$ 8,717,142	$ 375,800	4.5%	0.00070298	$ 9,216,068	$ 1,359,188	17.3%	0.00082115	$ 10,765,277	$ 1,764,179	19.6%
Year 10		$13,110,000,000	3%	$ 4,240,513	$ 4,863,704	**$ 9,104,216**	0.00069445	$ 9,104,216	$ 387,074	4.4%	0.00071704	$ 9,400,394	$ 184,327	2.0%	0.00085400	$ 11,195,940	$ 430,664	4.0%
								Average increase	**$ 344,913**	**4.7%**		**Average increase**	**$ 377,822**	**5.4%**		**Average increase**	**$ 577,327**	**7.5%**
												$ 296,178 more than current 3% system				**$ 2,091,724 more than current 23% system**		

Current system refers to the existing approach of dividing rates required by total district rateable capital value
Minimum rate price increase refers to increasing the prior year's rate price by the minimum of the proposed range.
Maximum rate price increase refers to increasing the prior year's rate price by the maximum of the proposed range.

Assumptions

Capital spend of	$ 5,000,000	per year, evenly spread, inflated.
Depreciated over	40	years
Funded by:		
Subsidy of	51%	from Waka Kotahi
Development income of	5%	for growth capital
Remainder is borrowing at	3.5%	average interest rate