RATES TARGET MODEL FOR NEW ZEALAND CONSULTATION

Introduction

Masterton District Council (MDC) appreciates the opportunity to make a submission to Department of Internal Affairs on the **Rates Target Model for New Zealand.**

Our Community

Our community of over 29,000 residents are spread across an area of 2,300km². As a rural/provincial district, Masterton offers a wealth of opportunities for its residents, and is a great place to live, raise a family, and retire.

We have a population that bucks the national trend: 23 per cent of our residents are pensioners (compared to 16.5 per cent nationally), and 24 per cent are under 20 years old (compared to 25 per cent nationally), leaving just over half of the population at 'working age'.[1]

Over the last decade we have experienced significant growth – around twenty per cent. Projections show the population will continue to trend upwards - it is estimated the Masterton population will grow by 35 per cent by 2055.[2]

While there are varying levels of deprivation in our community, as a whole Masterton is considered more deprived than the national average.

Our Council

MDC is a medium-sized local authority by New Zealand standards, employing approximately 140 staff members.

The Council comprises a Mayor and eight Councillors who are elected every three years from the Masterton Whakaoriori General Ward, the Masterton Whakaoriori Māori Ward, and at-large positions. The Mayor and Councillors hold collective responsibility for all Council activities.

Overall comments

Loss of local decision-making and democratic mandate

Local government exists because different communities have different priorities, cost pressures, growth patterns and service expectations. The proposed fixed revenue framework is tied to national indicators rather than local government realities. It constrains Councils ability to respond to the needs, priorities and circumstances of its local community, effectively taking the "local" out of local government.

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[1] As per 30 June 2024 | infometrics.co.nz
[2] https://demographics.sensepartners.nz/population

MDC acknowledges the importance of strong fiscal discipline, and we actively pursue it. However, a centrally imposed cap is not the right tool. Councils already operate under a rigorous system of public consultation, audit scrutiny and long-term planning requirements that incorporate the balanced budget requirement of the Local Government Act 2002 (sec 100). A uniform national cap on rates revenue risks overriding these existing mechanisms rather than supporting them.

Under the proposal model, councils would be forced to operate within a centrally defined cap, even where local communities supported a higher level of investment. Elected members would need to seek permission from a national regulator to act on local priorities. That shift fundamentally changes the decision-making powers and ability of elected members to effectively represent their constituents.

It turns what is currently a local democratic choice, informed by community engagement and consultation, into a compliance exercise overseen by central government.

We raised similar concerns in our submission for the System Improvements Bill. Both proposals see central government constraining local decision-making while accountability remains with councils. The result is a model where elected members are expected to carry the responsibility for community outcomes but are denied the authority to make the decisions needed to deliver them.

In Masterton, for example, the Council steps in to provide services or support that fills gaps either in central government provision or within our own community. These are gaps our residents expect us to respond to.

- We coordinate Mayoral-led engagement with social services to respond to local safety concerns.
- We run Welcoming Communities and refugee resettlement programmes after Masterton was identified as a suitable location for new refugee families.
- We have extended our climate fund criteria to support the agricultural sector, reflecting the realities of a rural–provincial economy.
- We provide social housing for the elderly, reflecting our aging and lower income demographics, and are making more land available for public housing, responding to local demand for affordable housing. Without access to income-related rent subsidies, these residents' below-market rents are subsidised by rates.
- We are assisting in developing our Dark Skies tourism offering; reflecting our unique potential to be the largest urban area to be part of a dark sky reserve which will bring significant economic benefit

By constraining councils within a centrally prescribed range, the rates target model erodes the democratic function. In doing so, it weakens local decision-making and local democracy.

Contradicts RMA Reform and Climate Adaptation Goals

The proposed rates target model also appears to contradict the policy direction the Government is pursuing through both RMA Reforms and the emerging Climate Adaptation programme.

The RMA reform has consistently emphasised the need for more efficient investment in infrastructure, clearer long-term planning, and the ability for councils to deliver the services and assets required to support growth, resilience, and environmental outcomes. Likewise, the Climate Adaptation programme acknowledges that councils will face substantial, ongoing costs to address sea-level rise, flood risk, managed retreat, and the upgrading or relocation of vulnerable infrastructure. These responsibilities are growing, not shrinking.

Yet the rates target model imposes a financial framework that limits councils' ability to respond to those pressures. It sets a centrally determined cap that does not reflect local geography, hazard exposure, or the scale of future infrastructure work needed to protect communities. In doing so, it creates a contradiction: councils are being asked to plan and invest for long-term resilience, while simultaneously being restricted in the primary revenue tool available to pay for it.

Instead of strengthening councils' capacity to meet the challenges identified in RMA reform and climate adaptation planning, the model risks weakening it. Underinvestment becomes more likely. Councils may be forced to defer resilience projects, scale back environmental programmes, or avoid proactive adaptation planning simply because they cannot fund them within a centrally imposed limit. This is the opposite of what the Government says it wants to achieve through its broader reform agenda.

Masterton District Council is facing challenges now to fund resilience work needed on Mataikona Road and recently met with Minister Watts to advocate for central government support. A 2023 business case estimated the cost to build resilience on the road at $70 million. A prioritised approach to implementation was estimated at $37.2 million. We do not have sufficient means to address the problem, which is not going away. Funding for situations like this will become even more challenging under the proposed model; and a targeted rate for the 89 properties on the road is not a viable option.

See: Discussion around climate-related damage puts vulnerable coastal roads in spotlight | The Post

In addition to the above discussion, it should be noted that Cyclones Hale and Gabrielle resulted in some $18 million of damage to our rural roading network. The Council has had to borrow to fund its share of those repairs, resulting in rates increases to pay the debt servicing costs. Weather events impact Councils hugely and we try to manage the impacts with the resources available, but if rates increases are capped, then Council will not be able to borrow to pay for the recovery and reinstatement of our roading infrastructure. Note that borrowing is often the only viable option to fund emergency response costs as Councils budget and set funding annually to deliver services and do not carry contingency funds for a rainy day.

Any proposed exemption process to the rates cap due to weather events needs to be efficient and minimally bureaucratic. For example, delays in approving an application for a rates increase exemption could mean the opportunity to set rates in June each year is missed and delayed twelve months.

Limits Council's ability to grow and develop

The proposed rates target model makes it harder for councils to invest in projects that help to grow their local economy, which in turn can help to reduce rates pressure in the future. Economic development is one of the key mechanisms councils have to broaden their rating base, attract new businesses, support local employment and enable growth that ultimately spreads costs across more people and more activity.

The proposed model appears to be reactive and short-sighted. It focuses on short-term cost limits, without recognising the long-term return on investment that many council-led initiatives deliver. Projects that support business attraction, workforce development, tourism, or enabling infrastructure often don't provide immediate financial benefits, instead they are critical for building a more resilient and prosperous local economy. These are the initiatives that help reduce reliance on a shrinking number of ratepayers and ease the burden on households over the long term.

A local example is Masterton Airport (Hood Aerodrome). It's a regionally significant asset being vital for emergency management and home to the internationally recognised Wings Over Wairarapa airshow. With the right investment, Hood can support more aviation activity, events, training, and commercial operations. These activities create jobs, attract spending, and strengthen the district's economic base.

Central government recognised this potential when it invested $10 million in 2020 toward critical upgrades as part of a wider $17 million project. That support acknowledged Hood's strategic role in the region's economic development. But continuing this kind of investment, with the goal of generating more user pays revenue, becomes much harder under a strict rates target that prioritises short-term cost containment over long-term value.

Incentivises deferred maintenance and a pre-cap spending splurge

The proposed rates target model risks encouraging behaviour that runs counter to good asset management and long-term financial planning.

When operating budgets tighten, maintenance becomes an area with short-term flexibility making it easiest to defer. This approach can lead to small, inexpensive fixes becoming bigger, costlier problems later.

In practical terms, the model risks pushing councils toward a pattern of letting assets run down until failure, because they can't afford to maintain them properly within the cap and then using debt to fund full replacements when things finally give out. For example a swimming pool's pumps and plant assets need to be maintained and depreciated. Those costs often increase above the rate of inflation. If Council cannot fund the increase due to a rates cap, the assets' life may be compromised through lack of maintenance and need replacement sooner than expected. The replacement would then need to be part-funded by borrowing and the debt servicing costs, which then drive-up rates further.

This approach is the opposite of good asset management. Routine upkeep extends asset life and keeps long-term costs down. Deferring maintenance does the reverse: it accelerates deterioration, increases long-term financial pressure, and contributes directly to the kind of infrastructure backlog New Zealand is already grappling with.

At the same time, the phased introduction of the cap risks creating the opposite behaviour at the front end. With monitoring starting in 2027 and the full model in place by 2029, councils may feel pressure to bring forward major capital projects while they still have the flexibility to fund them. There is a natural incentive to "lock in" big investments before financial settings tighten. New debt results in increased revenue requirement, which will drive up rates. Those projects will simply not be possible under a rates cap, or something else will need to be traded off or foregone by the community.

Together, these two behaviours undermine the steady, staged investment approach that strong asset management depends on.

Instead of supporting long-term stability, the model risks creating a cycle of hurried decisions followed by enforced restraint. Communities are left facing higher costs, more asset failures, and less predictable service delivery over time.

Infrastructure is a significant cost

The justification for the rates cap and the wider reform package lacks evidence. The case for change appears to be built on and driven by anecdotal claims, often outdated, and selective statistics about rates increases.[3]

It misleads the community regarding the real causes of rates rises, which are rising costs - and especially costs related to the provision of critical infrastructure. Councils across the country are facing cost pressures from aging infrastructure, supply chain disruptions, construction cost inflation, skills shortages in the contracting sector, replacement values driving up depreciation costs that link to the balanced budget requirement in the Local Government Act 2002 (s100) and escalating costs of compliance such as audit fees.

Addressing these underlying issues would be a more effective approach than limiting funding options or reducing non-infrastructure services. The Council needs the capacity to respond to our communities' needs, whether that be for swimming pools or meeting room spaces or sports fields or animal control services or emergency management preparedness or the range of other non-infrastructure services councils provide in their communities.

In Masterton District Council's 2025/26 Annual Plan, we have $73.1 million of operating costs and $55.2 million of capital expenditure. Of that, 53% relates to the core infrastructure services of roading, three waters and solid waste. For 2025-26 the increasing costs of delivering roading renewals and maintenance coupled with NZTA revising and restricting funding of our roading programme has seen rates required for the roading activity increased by 16.0%

Some cost increases this year have been outside of Council's control e.g. electricity costs on streetlights and swimming pools and the cost of professional indemnity insurance to cover potential liability associated with regulatory processes such as issuing building consents. In summary, it is both core infrastructure services and other Council services that can drive up the cost of rates. Council's need the ability to trade off both as part of consulting with their communities while maintaining affordable rates.

Despite these pressures, MDC is committed to exercising prudent financial management.

[3] Refer to the submission from *Taituarā* – Local Government Professionals Aotearoa for examples.

Through a combination of cost containment, prioritisation, and careful review of our work programme, we are currently projecting an average rates increase of 5.2% for the 2026-27 year, compared with the 6.5% average increase signalled in our Long-Term Plan. There are numerous reasons for this increase needing to be above the current rate of inflation, including the 'rates smoothing' that was implemented in the 2021-31 LTP (see further detail on this below).

This demonstrates that councils can and do take responsible steps to manage rates affordability when working closely with their communities, without the need for a blunt, externally imposed cap that risks unintended consequences.

Creates greater disparity for communities, particularly renters under a user pays model

Under the proposed model it is likely Councils will move more towards user pays through fees and charges rather than funding through rates, to recover the rising costs of Council's multiple services. Some services have no opportunity to generate income from user charges (e.g. parks and playgrounds). Services such as swimming pools do allow a user pays approach, but Council recognises through its Revenue and Financing Policy that there is a price point at which people will not pay for a service so increasing user charges will result in declining patronage and will likely to lead to greater disparity, particularly for renters and lower-income households.

Most renters don't pay rates directly, but they do pay indirectly through their rent. If councils were to move costs from general rates to user-pays, it is unlikely landlords would decrease rent to reflect this. Instead, renters would pay for core services that they use twice – through rent and then user charges.

There's also a broader community impact. When councils rely more on user-pays, the costs of community assets and public services shift from being shared collectively to being borne by smaller groups of users. Facilities that support wellbeing i.e. libraries, pools, sports grounds, and community centres become less accessible to the people who benefit from them the most. This creates a growing divide between those who can afford to participate in community life and those who can't.

Increases bureaucracy and costs

The proposed rates cap brings an extra layer of bureaucracy at a time when councils are already managing major reform and growing compliance demands. To operate within the cap, councils would have to produce new financial reporting, demonstrate alignment with the national target, and seek approval whenever they need to go outside it. All of these tasks would require new systems, processes and staff time.

This comes on top of the wider reform programme, which is already introducing significant changes to planning, infrastructure management, environmental regulation, and long-term investment frameworks. Each reform carries its own reporting, transition, and compliance requirements that requires resourcing at the expense of other services.

Greater clarity is needed

There is also uncertainty in how the rates target model would actually operate in practice. It is still unclear whether the cap would apply to individual rate types, to the rates charged at an individual property level, or to the total amount of rates collected by the Council.

There is also no clarity on how growth in the rating base would be treated when measuring compliance with the cap. That growth enables more revenue to be generated and spread across all properties achieving a lower average increase at the per property level.

Councils use Rating Valuations (RV) to apportion rates and those RVs are reset every three years. The changing proportion of market values every three years results in rates increases or decreases at the individual property level varying (sometimes significantly) from the average change. Capping rates increases at the individual property level would invalidate the whole rates setting mechanisms as set out in the Local Government (Rating) Act 2002.

Having this clarity matters as adding further complexity and restricting application of the Revenue and Financing Policy further restricts local decision making and the democratic process. Without clear guidance it is impossible to assess the full impact of the proposed rates capping. We request further clarity on this point

A fairer and more practical approach to implementing a rates cap

For the reasons outlined in our submission, Masterton District Council do not support the proposed rates cap. If the Government does proceed with the introduction of a rates cap, it needs to be designed in a way that reflects real cost pressures, aligns with how councils plan and manage their finances, accounts for growth and avoids creating unnecessary hardship for communities. There are two essential changes that would make the model less unfair and more workable.

- **Base the cap on the BERL-derived Local Government Cost Index (LGCI)**

  Using CPI or any household focused inflation measure does not reflect the cost structure of local government. Councils face cost pressures driven by construction, infrastructure materials, skilled labour, regulatory compliance, insurance, and asset renewals. These typically increase faster than CPI.

  The BERL LGCI is specifically designed to capture these pressures. Using CPI effectively forces councils to deliver services at below-cost inflation, which leads to cuts in service levels, delayed maintenance, or deferred investment. Alternatively, an independent cost index such as construction costs would be more applicable than CPI.

- **Delay implementation until after 2031**

  Many councils, including Masterton District Council, deliberately kept rates increases lower than needed at the start of the 2021–31 Long-Term Plan to support households recovering from COVID19.

  This "rates smoothing" was always intended to be temporary. Increases in rates were shifted into the later years of the LTP, with planned catchup increases designed to restore funds effectively borrowed internally. The intent of the 2021-31 LTP was that the Council would be able to continue delivering essential renewals, address inflationary pressures and restore funds into reserves once the community was in a more stable position.

  Introducing a new, externally imposed rates cap before the end of the 10-year LTP period in 2031 would effectively prevent the recovery of the deferred rates funding. The Council, in 2021 applied its own rates cap over the first five years of that LTP.

If there is a Government-imposed rates cap before 2031 it will be difficult, if not impossible, to recover the deferred funding built into existing LTPs. This creates a structural funding gap, undermines the integrity of the long-term planning process, and puts councils at risk of being unable to deliver the renewals, upgrades, and services the community has already been told to expect.

- **Introduce a rolling multi-year cap**

  A rolling multiyear cap, like a rolling three-year cap to align with the LTP cycle, would provide a more practical and flexible approach. Councils could remain within the cap on average over the multiyear period while still having the ability to exceed it in a single year when necessary. This would allow councils to manage year-to-year variations and respond to unexpected cost pressures while also preserving financial discipline. If this was introduced, it would still need appropriate safeguards to ensure it is not used to avoid fiscal discipline or shift unreasonable costs into future periods.

A fairer model would:

- Use the BERL LGCI to reflect actual cost pressures faced by councils, or some other more appropriate cost index
- Delay implementation until 2031 to avoid the double rates cap effect
- Maintain local flexibility so councils can meet the infrastructure and service needs of their communities, including weather-event recovery
- Allow existing Long Term Plans to unfold as intended, rather than overriding them midcycle
- Be a rolling multi-year cap rather than a single year cap.

This approach would still give central government a mechanism to provide financial guardrails, but without penalising councils for the responsible decisions they made during COVID-19 or compromising their ability to deliver the services and infrastructure their communities rely on.

Taituarā and Local Government New Zealand submissions

MDC supports the submission put forward by Taituarā – Local Government Professionals Aotearoa and Local Government New Zealand.