Office of the Mayor

Hon Simon Watts
Minister for Local Government
Private Bag 18888
Parliament Buildings
Wellington 6160

26 August 2025

Dear Hon Simon Watts

Re: Open Letter on Rates Capping

On behalf of the Manawatū District Council, we write to acknowledge and engage constructively with your Government's proposal to introduce rates capping. While we do not oppose the principle of capping rates, we wish to raise a number of important considerations that we believe should inform the development of any such policy. These are shared in the spirit of partnership and with the aim of supporting effective, sustainable outcomes for our communities.

We also seek clarification on some aspects of the proposed direction, and would welcome the opportunity to engage further to ensure the intended policy settings are practical and avoid unintended consequences—particularly for councils like ours that are working hard to balance community expectations with long-term fiscal responsibility.

Application of the rates cap in practice

MDC understands that Government intends to broadly follow the New South Wales (NSW) Australia model of rates capping. MDC notes that the NSW model is based on a set of principles that are set out in section 8B of the NSW Local Government Act 1993, as follows:

- Responsible and sustainable spending
- Responsible and sustainable infrastructure investment
- Effective financial and asset management
- Intergenerational equity.

MDC supports these principles and recommends that any rates capping established in New Zealand follow similar principles.

MDC seeks clear guidance and methodology for calculating the rates cap. The government's proposal to cap local authority rates should be designed in a way that both protects ratepayers and ensures councils can sustainably fund essential infrastructure and services. A cap calculated simply as a total percentage increase in rates revenue risks misrepresenting the true impact on ratepayers, as rates increases are often partly absorbed by growth (increase in rating units). At the same time, such an approach constrains councils in high-growth areas from raising the revenue required to provide additional infrastructure and services for new developments, thereby effectively penalising communities that are accommodating population and housing growth.

A more balanced and equitable approach would be to calculate the cap on a per-rating-unit basis. This means the rates increase year-on-year would be divided by the number of rating units, thereby ensuring that the cap reflects the actual rates burden experienced by households and businesses, while also recognising the fiscal pressures and opportunities created by growth.

MDC also seeks clarification on what activities of Council would be included in the rates cap and which (if any) would be excluded. For example, would 'core services' be excluded from the rates cap? If so, MDC questions whether regulatory services would be included in the rates cap given that they are not included in the list of core services as defined in clause 7 of the Local Government (Systems Improvements) Amendment Bill.

Will spending on three waters be excluded from the rates cap?

The Manawatū District Council is proceeding with a stand-alone in-house model for water services delivery. One of the benefits of separating three waters from councils' balance sheet was to enable councils to borrow more. If three waters infrastructure investment is captured by the rates cap, this will limit councils' ability to pay back their borrowing. This could have implications in the short-term while Councils transition from rates to water service charges.

Matters that Government should consider when setting the rates cap

MDC strongly believes that any rate cap should link to the Local Government Cost Index (LGCI) developed by Business and Economic Research (BERL) and not the Consumer Price Index (CPI). The LGCI more accurately reflects the typical cost structure faced by councils when delivering services and investing in infrastructure. This is quite different from the CPI which focusses on household spending.

Local Government uses the LGCI to forecast future expenditure as it reflects the real inflation pressures on councils delivering services like water, waste, roads and parks. The LGCI provides an evidence-based tool for explaining cost increases that are largely outside of the council's control, such as supplier prices, wages, or regulatory changes.

The rates cap should not apply to depreciation, insurance or interest

The cost of depreciation, insurance and interest are largely outside of Council's control.

Depreciation costs are related to the valuation of council assets, with higher asset valuations resulting in high depreciation requirements. MDC currently fully depreciates its strategic assets, except that Council only funds 50% of the depreciation of the Makino Aquatic Centre, the Manawatū Community Hub Libraries, medium and low-priority halls, and parks, reserves and sportsgrounds. If Council had to make significant changes to the way it funds the depreciation of its significant assets to keep within a specified rates cap, this would impact on levels of service and the ability of council to deliver on planned projects within forecast funding limits.

Councils are also limited in their ability to influence insurance and interest costs. MDC has already reduced insurance costs to help keep rates affordable through building a self-insurance reserve for minor events when it is preferable to making an external insurance claim. Interest costs are specifically excluded from the LGCI as they are highly variable depending on the schedule of assets insured, and Councils rely on advice from their insurance providers when forecasting these costs. Council's insurance costs were forecast to increase by 32% in year 1 of the LTP. If insurance costs continue to rise and rates caps constrain Councils ability to rate for these increases, MDC would have to explore alternative options, such as reducing the schedule of assets insured, or increase reliance on self-insurance reserves.

Interest rates are influenced by the Official Cash Rate (OCR) which is set by the Reserve Bank of New Zealand and is affected by global economic conditions and uncertainty. Council mitigates the impact of interest rates rises by being a member of the LGFA. However, if interest rates were to increase substantially, MDC would have to reduce capital expenditure and service delivery, impacting on levels of service.

The total rates increase for 2025/26 was 7.56%. Due to growth of 1.57%, the total increase for existing ratepayers was 5.99%. This 5.99% was made up of changes to the base budget (4.18%), 1.08% was new project and initiatives, 0.34% was new central government water levies, and 0.39% was as a result of reclassifying some capital works to be new levels of service rather than growth works.

During our 2025/26 Annual Plan, Council identified the following factors as being the primary contributors to the rates increase (changes to the base budget):

- BERL – higher rates of inflation for three waters than were forecast in the 2024-34 Long-term Plan (initially forecast at 2.8%, revised to 5.6%)
- Interest paid – increased by $565k to reflect the increase in debt required to fund new capital works
- Cost of gas – increased by $254k
- Cost of electricity – increased by $194k.

Rates caps should exclude recovery from emergency events e.g. cyclone recovery

The costs associated with repairing infrastructure as a result of emergency events such as Cyclone Gabrielle should be excluded from any rates cap, as this is outside of councils' control. If the cost to repair infrastructure damaged during emergency events is included within a rates cap, this would further delay recovery.

Exclude costs imposed on local government by central government
MDC recommends that any rates cap specifically exclude government-imposed costs, such as the Taumata Arowai and Commerce Commission levies for three waters compliance. Consideration should also be given to government-imposed compliance responsibilities, such as monitoring of earthquake-prone buildings.

Declining New Zealand Transport Agency Subsidies are impacting on levels of service
Consideration also needs to be given to reductions in New Zealand Transport Agency subsidies as this impacts on the local share that councils must fund via rates. If there are further reductions in the NZTA subsidy this could result in deteriorating roading network infrastructure if the rates cap means that Council cannot fund necessary maintenance and renewals.

Potential risks and unintended consequences
The Manawatū District Council wishes to highlight potential risks and unintended consequences with the imposition of rates capping on local government.

Council's struggling to fit their rates within an imposed rates cap will be forced to make budget cuts to anything that is 'non-core,' including grant funding to meet community needs, including:

- councils' priority service contracts;
- community development funding (such as events funding and community grants);
- economic development; and
- any other discretionary spending.

If the omission of "regulatory services" from the definition of "core-services" in clause 7 of the Local Government (Systems Improvements) Amendment Bill is deliberate, and such services are included within the rates cap, there would be pressure on councils to increase revenue via increases to fees and charges. Some fees and charges, such as food-related registration and enforcement fees, are set in regulations, while others are set by council but still subject to cost-recovery and consultation rules. For example, fees for resource consents, building inspections, certificates, animal licensing and dog control must not exceed reasonable cost recovery, that is, Council cannot make a profit. Given that councils are constrained in their ability to further increase fees and charges, any savings in the regulatory space would likely come from cuts to levels of service.

Many of Council's activities, such as building and resource consents, solid waste collection, and Shifts to 100% user fees can have unintended consequences and impact on peoples social and economic wellbeing and may actually run counter to the proposed purpose of local government to *"support local economic growth and development."* Through our Revenue and Financing Policy, MDC has made informed decisions on the funding of activities that balance user fees and other ways of funding, to achieve the best outcomes for communities.

Table 1 below provides some examples of what the true cost to the community would be if, due to rates capping, Council was required to fund 100% of the activity via user fees and charges:

Table 1:

Activity	Type of fee	Current 2025/26 fee ($)	Current funding mix	Cost if this was 100% user fee funded (2025/26 fee in $)	Total increase ($) and (%)
Makino Aquatic Centre general admission fee	Adult swimmer	5.50	80-85% - Uniform Targeted Rate split between: Feilding Differential Rating area 60%, Outside the Feilding Differential Rating Area 40% 15-20% - User fees and charges (admission, hireage, classes)	28.16	22.66 (412%)
	Preschool child	3.00		15.36	12.36 (412%)
Cemeteries	Plot fee – Adult	1,805	60 - 70% - General Rate (CV) 30 - 40% - User charges (internment, plots)	4,555	2,750 (152.4%)
	Plot fee – Child under 13	930		2,348	1,418 (152.5%)
	Interment fee - Adult	1,252		3,416	2,063 (172.8%)

As table 1 illustrates, without council subsidising activities via rates, many activities and services that the council provides would be unaffordable for most members of the community.

It costs Council $3,355,180 per annum (2025/26) to operate the Makino Aquatic Centre. The main costs include energy (gas for pool heating and electricity), water treatment chemicals, staff (including lifeguards), depreciation, facility maintenance, and insurance. The Makino Aquatic Centre provides essential services for the Manawatū Community, including swim education, fitness and therapy for the elderly. If Council was unable to use rates to keep entry fees to the Makino Aquatic Centre affordable, the implications for the health and wellbeing of our communities would be significant. Fewer children would have the opportunity to learn to swim, contrary to national efforts to reduce preventable drownings.

The total cost to operate the Manawatū District cemeteries for 2025/26 is $571,061. This cost includes depreciation, mowing and maintaining the cemetery grounds as well as the actual costs of interments. Given the small number of burials per annum, particularly in our rural cemeteries, if Council was to recover 100% of the actual cost of providing these services through fees and charges, the amounts charged would increase by more than 150%.

The fee that Council would have to charge in 2025/26 if it were required to fund 100% of these services via user fees and charges (Column 5, Table 1) assume that there would be no change in the demand for the service, which realistically would not be the case. This would further add to the unaffordability of Council providing these activities and services for the community.

Councils are meeting community need

Council is being increasingly relied on to fill the void left by central government funding cuts, particularly to community organisations. Demand for council support is increasing exponentially as community organisations have lost their central government funding or had their funding reduced.

The Council allocated $260,000 (having received grant applications of $506,000) to community service providers in Year 1 of the 2024-27 Long-term Plan. This funding went to organisations that provide essential health, educational, and crime-prevention services in our District, such as:

- Youth, parenting and anti-bullying programmes
- Mental health wellbeing, including counselling, support for drug addiction, and mentoring for rangatahi
- Health shuttle services
- Advocacy for tenants
- Life guard services

Council's projected operating expenditure for Year 1 of the Long-term Plan was $78 M, and the priority services contracts therefore formed 0.33% of Council's projected expense. The vast majority of Council's expense is for the provision of core services. Given this low cost, reducing the ability of local authorities to provide for social wellbeing and crime prevention services, through any cap that may apply to 'non-core' services, may have unintended consequences and cause disproportionately negative impacts for our Community. Any reduction in rate payer support for these essential services will put additional pressure on other government and community organisations, and will mean that tax payers have to pay more.

Rates as a funding model are unsustainable

MDC is of the opinion that rates capping will fail to address the primary issue, being that the reliance on rates as the primary source of funding for local government is unsustainable.

The funding of local government through rates has been reviewed multiple times over the past few decades. These include:

- Shand Report (2007) – Officially the "Report of the Local Government Rates Inquiry", which deeply examined the fairness and sustainability of rates.
- Productivity Commission's Inquiry into Local Government Funding and Financing (2019) – This was a comprehensive review that again scrutinized the reliance on rates and proposed alternatives.
- The Future for Local Government Review (2022–2023) – This included another review of funding and highlighted that over-reliance on property rates is unsustainable.

Central Government has not implemented the actions for these reviews or provided local government with the necessary funding or funding tools to reduce the current unsustainable reliance on rates. As a share of GDP, rates have remained essentially stagnant at 2% since 1945, whereas the share of central government's tax intake has increased substantially over the same period. MDC advocates for a new funding model that sees local authorities receiving a greater share of tax that genuinely reflects the increased costs that they incur.

MDC also wishes to reiterate previous requests calling for the removal of GST from rates. This change alone would lead to a 15% reduction in rates.

Yours sincerely

Helen Worboys
Mayor, JP