

4 February 2026

Department of Internal Affairs
Wellington

Rates Capping Consultation
Via ratescapping@dia.govt.nz

Horowhenua District Council submission on Rates Capping Model

Horowhenua District Council (Council) thanks the Department of Internal Affairs (DIA) for the opportunity to comment on the proposed rates capping model. In considering the Rates Capping proposal Council supports the submissions by Taituarā and LGNZ. In addition, we want to bring to your attention a number of matters specific to our district and Council.

Council supports and shares the Government's desire to increase affordability for our communities and to provide greater certainty about rates increases. The Government's strategic focus aligns with Council's own strategic direction as set out in our Financial Strategy in 2021, reconfirmed in the Long Term Plan Amendment, then the Long Term Plan 2024-2044.

Our key financial goal is to manage growth while living within our means. This includes achieving a balance between:

- Ensuring affordable rates for the community in the long term
- Minimising Council's debt so that we have room to invest in the community in the future and allow room for unforeseen events
- Making the best use of capital spending.

At a higher level, Council set three priorities for this term:

- Going for Growth
- Future Fit HDC
- Financial Discipline

All are directly relevant for considering the proposed Rates Capping model.

Council supports the four principles underpinning the proposed model, that it is: Independent, transparent, cost-reflective and localised.

With the alignment of the Government and Council's intent to improve the situation for our ratepayers and residents and support for the principles of this model, in the sections below, we have provided examples of how the proposed model would impact our Council. This is done with the intent of avoiding unintended consequences. We make a number of recommendations to provide practical additions to help ensure the success of the introduction of a rates capping model.

Principles

Council supports the principles that underpin the rates capping model:

- Independent - Determined by an independent authority
- Transparent - Simple for councils and their communities to understand
- Cost-reflective - Accurately reflect cost changes for councils
- Localised - Considers differences between councils across the country

Rates Cap band, formula, and economic indicators

Council raises the following matters to further increase the cost-effectiveness and the transparency of this model to ensure it is simple for councils and their communities to understand, and that the model accurately reflect cost changes for councils.

Rates cap

Council understands that additional clarity has been provided since the consultation opened, that the 'price component' is to apply to each and every unit rate, that is, to the dollar amount of the rate, and that there will be no provision for meeting the overall rates cap through 'overs and unders'.

• **Price Component**

Council understands that the price component of rates is to apply to each rate rather than to the overall proposed rates increase.

There will be a number of unintended consequences if *each rate* is capped at 4%.

It will have the effect of lowering the overall cap as there is an upper limit on each rate.

This approach will make it more challenging to manage as there are unders and overs for each area, and it is good to be able to average. For example, currently a proposed 5% increase in one rate could be offset by a 3% increase in another area, that is, together they average out to 4%.

A strict 4% maximum for each rate would not enable a higher increase where required to keep up with rising costs or if needed for future planning. Requiring approval from the regulator for 'overs' such as this, when there are 'unders' that would offset, would be inefficient for councils and the regulators. It could easily be labelled 'overly bureaucratic'.

It may reduce clarity and transparency of council's rating. Some councils already have a very generalised rating approach, where fewer rate types are specified. On one hand this makes it hard for ratepayers to know what they are being charged for. On the other, it is particularly blunt, whereas a more nuanced approach gives both clarity and supports a user-pays approach. For example, using Targeted Rates means these rates are targeted to those who use or benefit from particular services. If councils decided to roll those targeted rates up into the general rate (so that one rate would be the one capped), then all ratepayers would pay for all those items, whether they are urban or rural, homeowners or business owners.

This would be contrary to the direction of the model.

• **Use of CPI as lower bound**

Council does not agree with using the CPI as inflation guide for the lower bound of the rates cap. While this is relatable for ratepayers and the public, it unfortunately does not reflect the inflation local government is subject to. While Council's water infrastructure costs will soon move to Central Districts Waters, Council's 'basket of goods' will retain infrastructure such as roading and solid waste, and the inflation on those. These are included in the Local Government Cost Index which local government has used for several years to more accurately determine actual costs.

Looking at these figures it is clear that the inflation costs councils have faced are significantly higher than CPI inflation. This is not to minimise the impact of CPI inflation but to highlight that the measure we must limit ourselves to is not the one that drives our cost increases. To do this, risks financial sustainability and clarity. This difference is something we have shared with our community when explaining why Council's costs have increased at a different rate to theirs. We know there is more work to be done for this difference to be widely understood.

- **Formula**

Council understands that the formula provided in the Minister's letter is an example and that the formula is still being developed. We are pleased to hear further work is being undertaken and looking forward to further detail being released. We are aware that the example formula is not considering like and like. The Opex part of the equation is calculated on a 'per rating unit' perspective, whereas Capex is calculated on a 'per person' basis. It was not clear how 'quality of infrastructure' has been defined.

Recommendations: Council looks forward to receiving further detail about how the rates cap will be calculated, including the growth component, and overall formula.

Council strongly recommends that an 'overs and unders' approach be used for the rates cap to contribute to transparency for ratepayers, financial sustainability of councils' finances, and to avoid creating unnecessary strain on the regulators capacity.

Council recommends that the decision to use the CPI as the lower bound of the model is revisited to ensure that councils can meet the actual inflation costs they face and supporting the Cost-reflective principle underpinning the model. The Local Government Cost Index (LGCI) has been used for several years in local government and could be a relevant option.

Council further recommends that public communications about the model and inflation show the public the differences between the CPI and local government 'basket of goods'.

We would be happy to work with you on these matters.

Impact on depreciation and financial sustainability

While our Council is currently on track to have our depreciation fully funded by 2027, the proposed approach and cap mean councils are unlikely to be able to fund depreciation in future years. We note that this will also be monitored through the balanced benchmark measure, but the risk is that the limit re-creates conditions for the non- or under-funding of depreciation, a situation sought to be avoided by introducing a rates capping model.

There is a further risk that to 'recoup' or ensure the council gains sufficient revenue, that this could result in significant increases in fees and charges and unusual changes in those to meet compliance, which will cause challenges for lower income families in our communities.

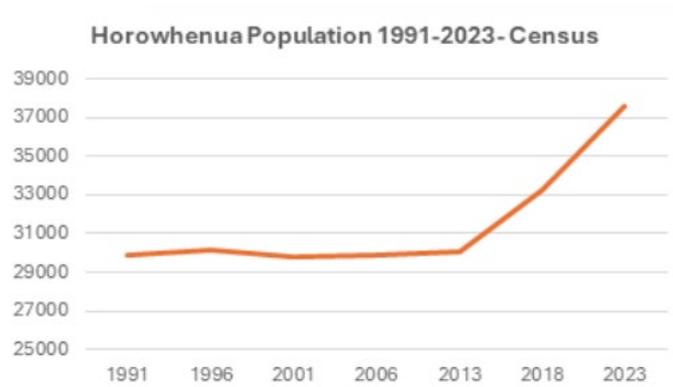
It could also require significant changes in service levels.

Recommendation: Council recommends that further work on the rates cap model ensures that councils will be able to fund depreciation and meet the requirements of the cap, for example by excluding depreciation from the cap. Provision for depreciation differs from a rate with a 'price component' and so a differentiated approach would be justified. Guidance could be provided to councils. We would like to work with you to develop this.

Growth

Council seeks clarity on the exception for councils going through their high growth period. At this time, we cannot determine this has been included and so whether is adequate for high growth council's infrastructure planning and building.

Horowhenua's population has seen significant growth since 2018, reaching 38,200 residents in 2024. This marks a significant increase, seeing our population growing by 7,000 in just 10 years - particularly significant having come off a period of almost no growth from 1991-2013. The housing market has also kept pace with this population boom with 1,329 new homes built in recent years, averaging 265 new houses per year.



This continued strong growth is underpinned by the Census figures released in 2023 showing that Horowhenua is the 10th fastest-growing district in New Zealand, outpacing many larger areas in both the Horizons and Greater Wellington regions. Figures show that while cities like Lower Hutt and Porirua have grown over the last five years, Horowhenua has seen the largest increase in population across the two regions.

Council needs to be able to plan for this continued high growth appropriately, so it is vital for us the rates cap model account for this. Further we strongly argue that it will not be adequate to use a 'regional' level population forecast to enable us to delivery for our community or for this part of a 'reorganised' area in future. Each council needs to be able to incorporate their own growth figure to be realistic, as is provided for with the cost-reflective principle underpinning the model.

Recommendation: That further detail is developed and shared to:

- Enable Council (and our community) to determine whether Council's high-growth would be sufficiently catered for, and sufficiently in advance to fund and build infrastructure to support that growth, and
- The impact the rates target will have on councils' ability provide for urban growth?

We would like to work with you to develop this.

Variations

Council understands that further work is being done on the variations and looks forward to seeing that material so it is clear the circumstances in which a variation would be available.

Council supports a variation being available for extreme circumstances eg natural disaster, global financial crisis or as determined by Ministers. We appreciate that councils will not need to justify the variation as the need would be clear. It is reasonable that councils show how they'll return to the target over an agreed timeframe.

We offer an improvement to support the practical application of this. As natural disasters are unpredictable, they do not occur neatly in line with Long Term Planning processes. When they occur, they need councils to respond immediately, and this may mean bringing funding forward from outyears, to use in the current year. Councils need to be able to make decisions in that immediate term with the certainty those changes will be acceptable to the regulator when the Long Term Plan is developed. Council recommends such provision is made.

Council is aware a second variation is being discussed that would see a more general power for some unforeseen and unplanned project (e.g. a large infrastructure project). That would require approval by

the regulator before LTP consultation starts. In addition to information about the need, and plan for returning to the cap, councils would have to demonstrate compliance with the cap.

- **Regulatory Relief**

Where a council seeks permission from the regulator to exceed the rating cap, does this mean that the Audit requirement would be waived as evidence of the need to exceed the cap, the plan to return to the cap limits, and based on a performance record. Currently a draft LTP must be audited prior to consultation. Requiring both the regulator and auditor to approve the material ahead of consultation appears to be a duplication of effort. To do both would also shorten the time available to Council to develop the robust proposals needed and early engagement we usually do with our communities.

Recommendations: Council recommends that provision is made for a 'natural disaster variation' to ensure councils have certainty that if they need to bring funding forward from outyears, to use in the current year to respond to the natural disaster, that this will be approved by the regulator.

Council recommends that regulatory relief by removing the pre-consultation audit requirement where a council seeks approval from the regulator to exceed the rates cap limit for a particular local purpose eg local infrastructure project. This would retain scrutiny of the workings and need but reduce a regulatory duplication and lower the audit cost for ratepayers.

Increased use of user pays approach

Council is concerned by the direction towards increasing reliance on user charges set out in the Council Paper. Doing this would reduce or possibly outweigh savings for some members of community sought by rates capping model and is likely to put significant pressure on lower income households.

Unfunded mandates

Council appreciates the attention given to unfunded mandates in the Cabinet Paper. The issues are well summarised in the following paragraph:

"Central government agencies often rely on local government to deliver or co-fund programmes that are unbudgeted. [...] the assumption is that councils will fund these programmes and responsibilities from rates. If under the rates target, central government agencies continue to rely on local government to deliver programmes or take on additional responsibilities, councils could be confused as to what activities they are meant to undertake and how to pay for them. It could also shift the cost burden to central government for existing programmes and responsibilities if councils cannot fund them within the rates target."

Council notes the concerns raised by a number of agencies about the impact of the rates cap on unfunded mandates and provision of services:

- **Infrastructure Commission:** Concerned that the delivery of central government priorities and local authority maintenance, renewal and growth demands will be constrained.
- **Ministry for Regulation:** More clarity needed around the role and requirements of the regulator, and in what cases they could allow exemptions. Questions the role of the band when the electorate wants and permits more spending.
- **Ministry of Transport:** The design of the band could have significant effects on potential underinvestment in roads and public transport, affecting safety, productivity and resilience of the transport network. Need to see more data on ensuring that household costs will be reduced and more stability of local government costs will be achieved.
- **Ministry for Housing and Urban Development:** Concern that rates band will have negative impact on how councils provide for urban growth. Becomes riskier for councils to free up land for development and invest in infrastructure without rates as cost-recovery option
- **MBIE (Tourism & Hospitality):** Concerns regarding delivering the Government's targets in the Tourism Growth Roadmap. Reduced investment in tourism initiatives and no recognition of active nature of councils enabling growth.

Given the attention being given to the implication of unfunded mandates on the rates cap, it is very concerning to see that while this is being consulted on the government is also consulting on the Planning Bill and Natural Environment Bill which proposes regulatory relief to first movers withing a development.

With local authorities facing affordability challenges, in addition to rates capping, there is a very real concern that councils and therefore communities will be unable to pay.

Recommendations: Council looks forward to seeing the detail provided by agencies regarding the costs of unfunded mandates and is available to work with DIA to provide further detail and confirmation as needed.

Like the Government, Council would like to avoid a reduction in services as a consequence rather than a deliberate intention of the rates cap model. Council recommends that further work be competed to reduce the reliance on increasing user charges or gaps left by these 'mandates' becoming truly 'unfunded'.

As will be included in Council's submissions on the Planning Bill and Natural Environment Bill, Council recommends that the provisions in that legislation enabling compensation for first mover developers be removed or that liability be removed from the rates cap.

Implementation

Regulatory relief

Council seeks regulatory relief from Government to reduce regulatory and compliance costs during the development and implementation of the rates capping model. For example, to reduce the requirements and costs of LTP and Annual Report Audits. This could be developed to reduce the compliance burden on councils with a solid record of performance, proven by their auditor's reports.

Transition period

For successful preparation and implementation, a longer transition time required. Council notes that councils will be required to work under rates capping model before the Government expects to balance their books.

Local Government must be local

Council strongly agrees with the localised principle as it is fundamental to 'Local' Government. We cannot emphasise this strongly enough.

We like the approach of including principles to ensure a consistent approach by councils at a higher level, and the recognition of the reality of the complexity of issues councils manage, scope of councils' roles, and impacts of historic financial and project decision-making.

It is similar to a party of MPs based throughout the country – similar role on one level, but there are differences in issues faced by city-based MPs, provincial and rural MPs. You will be aware that a one-size-fits-all approach wouldn't work and local issues must be considered.

We noted that further work is being done to consider "*Could councils apply for additional items to be exempt depending on individual circumstances?*"

However, a recurring theme in the material is the standardisation of approach to delivering services for communities. Just as that sentence is written, 'local' doesn't feature.

As stated at the beginning of our submission, Council is actively trying to reduce the costs ratepayers face, we support ensure standards are being met.

Council doesn't support the 'local' element of local government being further stripped away. We voiced our concerns about the loss of local voice throughout the consultations on Local Waters Done Well legislation, Resource Management Reform and add to that here. This proposal

There is no provision in the model for community or locally driven initiatives to be included in the cap or as grounds for an exemption. A genuinely 'localised' approach would enable that. Council strongly

recommends provision be made for a variation to the upper limit for projects or investment approved by the community.

Local issues that need consideration are:

- **Legacy issues**

It appears that remediation of legacy issues is not included within the cap and Council strongly submits that this be changed.

In the Long Term Plan 2024-2044 Council introduced a Landfill Legacy Rate to fund the provision of the Landfill including repayment of debt and funding the remediation of the Hokio landfill. The rate is assessed as a fixed charge of a uniform amount on the basis of the number of SUIPs of each rating unit within the district – that is, every property pays the same amount.

Council operated landfills for approximately 60 years, benefitting all residents. The last operational landfill was closed in Levin in October 2021. Our closed landfills require careful ongoing monitoring and maintenance, especially the Levin Landfill, which needs monitoring and maintenance for a minimum of 30 years. To cover these costs, a 'Landfill Legacy Rate' was introduced. This rate allows us to repay the existing landfill loan of \$4.7m and fund the ongoing monitoring and maintenance of our closed landfills.

We would ideally have paid for this in the past, but we haven't yet. As all residents are likely to have benefited from the landfills in some way, the cost will be evenly shared among all properties in the district with the loan being serviced over the next 20 years. It was consulted on widely and introduced in 2024. Council recommends explicit provision be made for councils to exclude legacy rates from the rates cap.

- **Future issues**

Construction of the new Ōtaki to North of Levin (Ō2NL) highway is underway, a very exciting project and opportunity for our district. Alongside that, there is a proposed revocation of State Highways 1 and 57, which could include the handover of significant bridge structures. This process may result in Council inheriting substantial liabilities, potentially placing pressure on ratepayers into the future. As this process is largely out of Council's control, it is recommended that any costs associated with it be excluded from the rates capping environment, to ensure the Council and community are not unfairly constrained in managing these obligations.

- **Longer term commitments**

Council has a number of contracts valid for 10 years or longer. When renewing these a CPI uplift would generally be included but this does not appear possible within the rates cap. This could lead to reduced Level of Service and also how Council could manage themselves out of contracts without significant financial penalties, which due to funding sources, would ultimately be costs for ratepayers.

Council recommends that commercial contracts for delivery of services be excluded from the rates cap to protect commercial operators and ensure that councils aren't at risk of using ratepayer money to pay financial penalties instead of delivering services.

- **Local infrastructure**

While water infrastructure will be the responsibility of Central Districts Waters, Council will remain responsible for other infrastructure notably roading. Council is concerned that pragmatic decisions to improve local infrastructure will not be possible.

We seek confirmation we would be able to act as we did for the required realignment of Gladstone Rd. A 1.2km section of Gladstone Rd was prone to slips, isolating the small community cut off a number of times after heavy rain. Geotechnical advice had shown further landslips there were likely and there are few options for treating the land itself to reduce the risk. Although residents had used an emergency

route into the area when the road has been closed, that was on private land and not suitable for long-term use.

After a detailed process Council purchased land and rerouted the road to the opposite side of the Omaha Stream. The new section of road included two single-lane bridges.

Council seeks confirmation that it will be possible for councils to address local infrastructure issues not considered during the Long Term Plan. That addressing unforeseen local issues like this, resulting from extreme weather would be allowed through Variation already outlined by the Government or through an additional variation option.

- **Pre-settlement Iwi**

In Horowhenua we have two pre-settlement iwi and the rates cap does not enable preparation or provision for that. Council seeks confirmation that the rates cap model would not inhibit Council's ability to respond to a settlement, or disadvantage local iwi in the progress of the settlement process.

Misalignment with the principles of the model and purpose of local government

As Council has digested the detail available, what has become apparent is that the model considers the setting of rates as a with a focus on the immediate timeframe, or perhaps immediate 3-year period between LTPs being set.

It takes rate types into account but not all matters that have a rating impact.

It hasn't accounted for Council area level forecasts of growth, responsible remediation of legacy issues, the impacts of longer-term contracts for councils or providers.

It isn't consistent with the 'Localised' principle, but it could be if amendments were made to incorporate these matters.

As modelled depreciation funding is unlikely.

This isn't consistent with the Cost-reflective principle.

It focuses on the interests of the community today – their needs right now – rather than considering both their current and future needs.

This means in its current form it doesn't deliver on the Government's desire to increase the financial sustainability of councils.

It is also arguably inconsistent with the Purpose of Local Government as current in force and as proposed in the Local Government (System Improvements) Amendment Bill.

Local government Act 2002

10 Purpose of local government

- (1) The purpose of local government is—
 - (a) to enable democratic local decision-making and action by, and on behalf of, communities; and
 - (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

As proposed to be amended by the Local Government (System Improvements) Amendment Bill:

10 Purpose of local government

The purpose of local government is—

- (a) *to enable democratic local decision-making and action by, and on behalf of, communities; and*
- (b) *to meet the current and future needs of communities for good-quality, cost-effective, and local*
 - (i) *infrastructure; and*
 - (ii) *public services; and*
 - (iii) *performance of regulatory functions; and*

(c) to support local economic growth and development by fulfilling the purpose set out in paragraph (b).

Recommendations

Council recommends explicit provision be made for councils to exclude legacy rates from the rates cap.

Council recommends that any costs associated with proposed revocation of State Highways 1 and 57 be excluded from the rates capping environment, to ensure the Council and community are not unfairly constrained in managing these obligations.

Council recommends that commercial contracts for delivery of services be excluded from the rates cap to protect commercial operators and ensure that councils aren't at risk of using ratepayer money to pay financial penalties instead of delivering services.

Council seeks confirmation that an exemption from the rates cap would be allowed to address local infrastructure issues resulting from extreme weather either through the variation already outlined by the Government or through an additional variation.

Council seeks confirmation that the rates cap model would not inhibit Council's ability to respond to a settlement, or disadvantage local iwi in the progress of the Treaty settlement process.

Council recommends that further work be done to consider how the model can more clearly fulfil the principles underpinning it, and to ensure that the 'current and future' needs of communities are factored in.

Setting rates is more complex than it appears. Councils haven't been being difficult when we've been saying it's not as easy as reducing running costs. We want to lower the costs for our communities while providing services they rely on and provide for their needs now and in the future. As we have sought to show, there are several dimensions to that.

That said, we don't believe the status quo is an option - the system doesn't work at the moment either. We would be very happy to work with you on this to help ensure that reforms made are successful and so do deliver what we all seek: Providing predictability and being more affordable for our communities. We have provided practical recommendations to avoid seeing any unintended consequences result from the introduction of the rates capping model.

Council would like to be involved in the further development and assist with testing of the model.

In closing, we also seek to operate in a more predictable environment. Council acknowledges

Government's desire to improve a wide range of matters related to local government through the ranges of reforms currently underway. We call on the Government to provide the integrated view of the reform programme, including overall vision, sequencing, operational impacts and overall timeline. This would mean we are less likely to do work, then have to undo it – at possible cost to ratepayers – but also to contribute further with practical solutions so that local government does work better, and we all deliver for our communities.

Our recommendations are listed next page.

Yours sincerely,



Bernie Wanden, JP
Mayor



Monique Davidson
Chief Executive

Horowhenua District Council Recommendations: Rates Capping Model

Formula

Council looks forward to receiving further detail about how the rates cap will be calculated, including the growth component, and overall formula.

Council strongly recommends that an 'overs and unders' approach be used for the rates cap to contribute to transparency for ratepayers, financial sustainability of councils' finances, and to avoid creating unnecessary strain on the regulators capacity.

Council recommends that the decision to use the CPI as the lower bound of the model is revisited to ensure that councils can meet the actual inflation costs they face and supporting the Cost-reflective principle underpinning the model. The Local Government Cost Index (LGCI) has been used for several years in local government and could be a relevant option.

Council further recommends that public communications about the model and inflation show the public the differences between the CPI and local government 'basket of goods'.

Depreciation

Council recommends that further work on the rates cap model ensure that councils will be able to fund depreciation and meet the requirements of the cap, for example by excluding depreciation from the cap. Provision for depreciation differs from a rate with a 'price component' and so a differentiated approach would be justified. Guidance could be provided to councils. We would like to work with you to develop this.

Growth factor

That further detail is developed and shared to:

- Enable Council (and our community) to determine whether Council's high-growth would be sufficiently catered for, and sufficiently in advance to fund and build infrastructure to support that growth, and
- The impact the rates target will have on councils' ability provide for urban growth?

Variations

- Council recommends that provision is made for a 'natural disaster variation' to ensure councils have certainty that if they need to bring funding forward from outyears, to use in the current year to respond to the natural disaster, that this will be approved by the regulator.
- Council recommends that regulatory relief by removing the pre-consultation audit requirement where a council seeks approval from the regulator to exceed the rates cap limit for a particular local purpose eg local infrastructure project. This would retain scrutiny of the workings and need but reduce a regulatory duplication and lower the audit cost for ratepayers.

Unfunded mandates

Council looks forward to seeing the detail provided by agencies regarding the costs of unfunded mandates and is available to work with DIA to provide further detail and confirmation as needed.

Reduce reliance on user charges

Council recommends that further work be competed to reduce the reliance on increasing user charges or gaps left by these 'mandates' becoming truly 'unfunded'.

As will be included in Council's submissions on the Planning Bill and Natural Environment Bill, Council recommends that the provisions in that legislation enabling compensation for first mover developers be removed or that liability be removed from the rates cap.

Local issues

Council recommends explicit provision be made for councils to exclude legacy rates from the rates cap.

Council recommends that any costs associated with proposed revocation of State Highways 1 and 57 be excluded from the rates capping environment, to ensure the Council and community are not unfairly constrained in managing these obligations.

Council recommends that commercial contracts for delivery of services be excluded from the rates cap to protect commercial operators and ensure that councils aren't at risk of using ratepayer money to pay financial penalties instead of delivering services.

Council seeks confirmation that an exemption from the rates cap would be allowed to address local infrastructure issues resulting from extreme weather either through the variation already outlined by the Government or through an additional variation.

Council seeks confirmation that the rates cap model would not inhibit Council's ability to respond to a settlement, or disadvantage local iwi in the progress of the Treaty settlement process.

Alignment with principles and purpose of local government

Council recommends that further work be done to consider how the model can more clearly fulfil the principles underpinning it, and to ensure that the 'current and future' needs of communities are factored in.

We would be happy to work with you on these matters.

END

