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Dear Sir/Madam

Waikato Regional Council Submission to Rates Target Model for New Zealand proposal

Thank you for the opportunity to submit on the Rates Target Model for New Zealand proposal. Please find attached the Waikato Regional Council's (the Council's) submission, endorsed by the Council's Chief Executive under delegated authority on 3 February 2026.

Should you have any queries regarding the content of this document please contact Brooke Swanson, Policy Advisor, Policy Implementation, Science Policy and Information Directorate directly on (07) 859 0945 or by email Brooke.Swanson@waikatoregion.govt.nz.

Regards,

Chris McLay
CHIEF EXECUTIVE | Tumu Whakarae

Submission from Waikato Regional Council on the Rates Target Model for New Zealand proposal

Introduction

1. We appreciate the opportunity to make a submission on the Rates Target Model for New Zealand proposal.

2. Waikato Regional Council (the Council) recognises that the Rates Target Model proposal will impact the way that the Council operates and the services that it will be able to deliver to ratepayers in the Waikato Region.

3. While the Council supports the need to ensure that all local authorities are providing services for their ratepayers in the most cost effective and efficient manner, we consider that the proposed blanket rates cap increase at 2-4% requires refinement for it to be implementable across the country and that as it is, it is unlikely to meet the government's objectives in reducing local government rates burden on ratepayers.

4. Our submission provides overarching comments and then addresses the targeted consultation questions. Key submission themes are:
   - Accounting for level of service variability
   - Local/central government partnership
   - Central government directions/external factor influence
   - Applicability of proposal to targeted rates
   - Unintended consequences of unfunded mandates
   - Consideration of climate resilience
   - Accounting for intergenerational impacts
   - Clarity on inclusion and exclusions
   - Connected legislative reform
   - Timing and implementation support

Accounting for level of service variability

5. The model needs to account for variability in the type and level of services that local authorities respectively provide, and account for the external drivers of costs that are beyond ratepayers' and local authority control.

Local/central government partnership

6. Central government and local government ideally work in partnership to provide for the wellbeing of our communities; it is important that this partnership extends to funding the services that we jointly provide. If the proposal is to yield the outcomes sought for ratepayers then it must be seen as part of a wider system where central government devolves responsibilities to local government or makes policy decisions that have the potential to increase costs to ratepayers. If so, then commensurate funding, or the ability to make use of funding mechanisms other than rates, will need to be provided for.

Central government directives and external factor influence

7. It would be beneficial for the government to provide a clear indication of the financial impact of new/modified roles or responsibilities that may be conferred on local government from central government (as signalled in the Simplifying local government proposal document). Transparency needs to be provided to ratepayers so that they are aware of the reasons/ sources for additional costs they may incur. In addition, exemptions from the proposed rates cap should be available in order to allow councils to assimilate new cost drivers from central government into their baseline budgets without the need to compromise other service levels that have been agreed with our communities.

Applicability of proposal to targeted rates

8. We consider that targeted rates related to flood protection and drainage,regional transport services, and Civil Defence Emergency Management should be excluded from the rates cap. Targeted rates go through a consultation process with the community to which they apply, and they are jointly agreed upon. Ratepayers are willing to pay higher rates in areas where a targeted service is provided, and as such this should be enabled to provide for community interests and needs as well as vital services (such as flood infrastructure) if the community requires. It is noted that targeted rates have a general rate component and this needs to be accounted for in the proposed model.

9. By including targeted rates in the rate cap, it is likely to significantly disadvantage communities who have specific or targeted needs and , where the direct beneficiaries are willing to fund the activity to the agreed level of Council's Funding and Financing policy. This is also likely to affect communities who are at higher risk of experiencing ghe effects of increased climate change events and natural hazards.

Unintended consequences of unfunded mandates

10. We support restrictions on central government placing unfunded mandates on local government. With a restriction on how much rates can increase by, there is unlikely to be surplus expenditure to be able to fund mandates which are not accounted for in LTPs. We recommend amending the proposal to provide a mechanism to enable local government authorities to impose rates over the legislated cap to meet unfunded mandates. An example of this would be the regulatory relief required in the Planning Bill as noted in the Waikato Regional Council submission points to this Bill.

11. We consider that the model needs further sophistication to take into account external drivers of costs faced by the council. This includes mandates by central government and government entities. The New Zealand second Emissions Reduction Plan 2026 (Ministry for the Environment) requires public transport authorities to procure only zero emissions buses from 1 July 2025 and the full decarbonisation of the public transport fleet by 2035. This imposes a costly burden on councils without funding to back up the cost. In a rates cap environment, this will result in other key services lacking funding in favour of fulfilling government mandates. As such, we consider that the model should account for these mandates in such a way that does not result in externally mandated priorities overriding what local communities may want.

Consideration of climate resilience

12. We consider that the levels of service that communities currently experience in relation to flood management and drainage services will be unable to be met as a result of the current proposal. This infrastructure is vital to the productivity and resilience of communities and regions, if the funding cap was to be applied to these services a significant impact would be experienced by key primary producing areas of the Waikato. The revenue required to fund the ongoing maintenance of this infrastructure, let alone planned upgrades, will not be able to be raised within a rate cap band of 2-4%. We recommend that capital works, including flood management and drainage services, be excluded from the model.

    Alternatively, if it cannot be excluded, we recommend replacing the proposed formula with one which will account for the cost of capital works and infrastructure, where the formula takes account of impacts on direct beneficiaries of the service and consequent impacts on general rate ratepayers.

Accounting for intergenerational impacts

13. We note that much of the Council's work deals with long term and, at times, intergenerational impacts. Some of the work that is undertaken includes preparation for future scenarios, events, and growth; however, the proposed rates model whereby rates increases are capped at 2-4% will result in short-term thinking to stay within the rates cap. There is a risk that this approach is likely to lead to planning only for three yearly funding cycles and poorer outcomes for communities.

Clarity on inclusion and exclusions

14. We recommend the government clarifies the sources of rates that will be included and excluded from the cap. The model provides for exclusion or water charges and targeted rates. We query if the model only applies to the water services related to the Local Government (Water Services) Act 2025; if it does then we suggest it should also be extended to other water managed services and functions such as flood management and drainage infrastructure provision. Flood management and drainage services ensure that communities and their economies can continue where they are supported by infrastructure that has agreed Levels of Service that these ratepayers are prepared to fund (as determined through Asset Management Plans and LTPs). Flood management, river management and drainage services are significant parts of catchment management. Catchment management benefits accrue not only to direct beneficiaries (directly impact landowners), but also to the wider region and country as a result of national assets such as roads and rail being protected.

15. The same principle could also be applied to responding to new biosecurity incursions, or to biosecurity management where the community requires an increased level of intervention, and they are prepared to fund this.

16. We consider that, due to the unique co-funding and cost setting situation with public transport, which is administered by New Zealand Transport Agency (NZTA), and councils being required to meet prescribed local share contributions, that a generic rate cap is poorly suited to public transport expenditure. NZTA drives the majority of public transport cost decisions and policies including:
    - Levels of crown funding to deliver aspirations outlined in the Government Policy Statement
    - Setting of annual cost indexation indices
    - Developing policy settings related to private share revenue and monitoring regional farebox recovery
    - Defining national procurement and contracting frameworks

17. Cost increases arising from these requirements are often unavoidable and do not align with general inflation or nominal GDP. As such, it is likely that the resulting scenario will be reduced services or deferred investment where costs increase beyond the rates cap band as a result of mandated cost. Reduced services and reduced public transport investment will increase congestion (impacting economic development) and creates social inequity issues in access for our communities to work, healthcare, education and services. As such, we consider that increases in rates funding for public transport should be governed by the relevant NZTA cost indices rather than the general rates cap.

18. If public transport is to remain a service which is subject to the rate cap, we consider that funding to implement public transport mandates should be provided from central government to ensure that services are able to be provided to communities while operating within a rates constrained environment.

Connected legislative reform

19. We recommend considering the overall impacts that all current proposals will have on local government, including the impacts from the Simplifying Local Government proposal, resource management reform, infrastructure funding and financing, and development levies reform. It is important that each of these workstreams are connected and have a common purpose and do not conflict with each other. We consider it important to be mindful of the sequencing of the reforms, and if the government decides to progress with the rates capping system to do so at an appropriate time when the functions and responsibilities between central government and local government are clearer.

Timing and implementation support

20. We recommend considering the timing of a potential new rates system in connection with the LTP consultation process as well as current statutory requirements for consultation on associated policies,

such as Funding and Financing Policies. We query if these will still be required given that, by virtue of implementing the rates capping formula, many of the funding and financing decisions that we would ask of our communities will be determined by this proposal. We consider that local government will require significant support from central government in terms of implementation through a transition period. Therefore, we recommend central government ensures that the entire sector is supported through the transition, and that those providing the support are knowledgeable about the sector including understanding the different financial operating models of territorial authorities and regional councils.

21. We look forward to future consultation processes and would welcome the opportunity to comment on any further issues explored.

Submitter details

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Consultation questions	Response
Q1. Do you agree with the proposed economic indicators to be included in a formula for setting a rates target?	We generally agree with the logic regarding the type of indicator used, particularly the lower end of the range being based on a measure of inflation. We understand the purpose of this lower bound is to allow the real value of services to be maintained, while the purpose of the upper end of the range being based on a measure of nominal economic activity is to allow rates to increase as the economy grows (and demand for infrastructure and services grows accordingly). However, we consider that the Consumer Price Index (CPI) is a poor indicator of costs for most councils and is inappropriate as a lower band in the target range. We consider the CPI to be an arbitrary indicator choice overall and it is unclear how it will achieve the aim of keeping up with demand for services, if this is the intention. The Council is concerned that, for the upper band, there will be periods when the averages do not reflect current or expected conditions or pressures faced by communities. It is considered that, while the proposed indicators may achieve the objective of constraining council rating decisions, in practical application levels of service and investment asked of us by our communities (determined through statutory consultation processes) will be compromised.
Q2. If not, what economic indicators do you suggest be included and why?	For the reasons described in response to Question 1, we consider that alternative measures of inflation that more appropriately reflect the costs faced by councils, would be a better basis for the lower band of the range. Importantly, alternative measures should not act as a barrier to addressing the underlying infrastructure deficit problem. The Council considers that indicators that reflect the nuances of different local authorities, the differences in services provided, socio-economic and physical environments, and local economy and gross domestic product (GDP) of council constituencies should be used. The broad national scale macroeconomic indicator of CPI would require significant adjustments and exemptions to be made to work in the manner that the proposed model envisages. We recommend that a composite indicator be used, as individual indices do not include all relevant costs faced by councils. A composite index could incorporate elements of the Capital goods price index (CGPI), Producers price index (PPI) and Labour Cost Index (LCI), with elements weighted to reflect their relative importance in council costs overall. The CGPI estimates the overall price change in physical assets that the productive sector acquires or builds. The major asset groups are buildings, both residential and non-residential, civil construction, land improvements, and plant, machinery, and equipment. The PPI input indexes cover purchase of materials, fuels and electricity, transport and communication, commission and contract services, rent and lease of land, buildings, vehicles, and machinery, business services, insurance premiums less claims, and financial intermediation services. The LCI measures changes in salary and wage rates in the labour market for the same quality and quantity of labour.

Q2.a) Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards? If not, why not?	In a rates-constrained environment it is unlikely that councils will be able to maintain the current levels of service and service standards. These levels of service to the community are agreed with the community through the Long-Term Plan (LTP) and Annual Plan process. Ratepayers are those who fund services, and through consultation processes let councils know to what degree they wish to fund projects. Many ratepayers who pay targeted rates indicate that they are prepared to pay more than the upper band of the proposal to get the level of service they have agreed with council. An example of this is in the case of flood protection and control works where targeted rates funded 71% of the overall works for 2024/2025[1]. More specifically, formal consultation was undertaken and a targeted rate was confirmed for the Hauraki District community of Wharekawa to improve community resilience. As presented, this proposal would significantly inhibit the Council's ability to provide for existing and agreed levels of service to many of our ratepayers. It is possible that some services that are provided or are subsidised by the 'general rates ratepayer' may be required to move to a user pays or partially user funded model if the service is to remain viable. This, in turn, has the potential to negatively affect engagement in services that are provided or make them inaccessible for some users. For example, transport is an increasing proportion of the Council's expenditure; however, a proposed rates cap could lead to an increase in fares for users to cover any deficits in funding. As these prices rise, demand for the services can be expected to fall. This, in turn, may result in some services becoming non-viable, resulting in the re-emergence of the market failure that public transport is intended to correct (i.e. the under-provision of a public good). With the changes in the resource management system through the replacement of the Resource Management Act 1991 (RMA) with the Natural Environment and Planning Bills (the Bills), additional demands may be placed on councils and council expenditure to fund levels of service that are required by central government with no additional source of revenue to meet these additional costs. There is particular concern in relation to the increase in permitted activities and permitted activity monitoring and a decrease in revenue raised through consent fees to fund this. It can be expected that we will see a requirement to increase council spending in relation to permitted activity monitoring, but without a charging mechanism through which costs are able to be recovered. Additionally, the council's State of the Environment monitoring, as required by the RMA currently receives 33% of its funding from resource consent revenue with the remaining 67% being funded through general rates. This apportionment has been determined through a full community engagement process and is revised each LTP planning cycle. The 33% portion from resource users accounts for the exclusive right to use a portion of a public resource (such as a water allocation, or coastal space for aquaculture) and the increased impact and therefore need to monitor the state of the surrounding environment. With a decrease in consents and consents revenue, the general rate will likely be required to fund a higher percentage, however capped rates increases may leave this work underfunded, or may result in council not being able to fulfil statutory requirements.

[1] Waikato Regional Council Annual Report 2024/25 Flood protection and control works: PS2526.pdf

	The regulatory relief provisions of the resource management reform proposals are another contributing pressure in the system that will need to be accounted for within the rates capping proposals The process and criteria used for regulatory relief should not be undermined, nor should it undermine, the rates capping proposal, we look forward to central government guidance in this respect . Due to the history of rating decisions that have not allowed for adequate infrastructure investment (in maintenance, renewals and growth) to keep up with demand, a well-recognised infrastructure deficit exists around the country, and many councils have been trying to address this[2]. This carries a financial funding legacy that is not accounted for in the rates capping model yet is a substantial driver for projected rates increases (based on work undertaken through asset management plans, infrastructure strategies, funding and financing policies, and ultimately through council's Long Term Plan process). Providing for this legacy places additional financial pressure beyond inflation or historical nominal GDP growth. The proposed rates cap assumes that the infrastructure deficit has been addressed. We consider that there should be flexibility within the framework until the infrastructure deficit is addressed – including allowing for the time and funding needed to achieve this. Considering the different nuances across the country means that a tailored / bespoke approach would be required to ensure that this is achieved. We consider that failing to do this will lead to greater pressure coming to bear on future ratepayers through infrastructure failures. Overall, it is unlikely that the council will be able to maintain service standards if targets are set in line with inflation and therefore will not meet the needs of our communities who fund the work that they expect us to do. Recent history shows clearly that there are sustained periods when council costs have risen much faster than CPI inflation. Rates increases are a response to not only inflation but other external pressures such as interest rates, community pressures, demand for infrastructure (including to protect central government assets, for example roads and schools, and productivity, for example, in agriculture, which supports New Zealand's GDP), and the requirement to respond to and implement central government expectations and requirements that require financial input from communities. We consider that a focus on inflation alone risks overlooking drivers which contribute to increases. We suggest that alternative measures of inflation that better reflect the costs of a council (rather than a household) should be the basis for the lower band in a range. We recognise that national measures are unlikely to reflect the diversity of councils around the country, and expect that even with such a measure, some councils are unlikely to be able to maintain levels of service.

[2] See the 2019 Infrastructure New Zealand's submission to the Productivity Commission's consultation on the Local Government Funding and Financing Inquiry Issues Paper: pc-inq-lgff-sub-128-infrastructure-new-zealand.pdf

Q3. Does the maximum of the target account for council spending on core services?	For the reasons discussed in response to Q1-3, we do not consider that the maximum target accounts for council spending on core services. As mentioned above, the cap is very likely to impact permitted activity monitoring. There is a current trend within the Waikato region whereby permitted activity monitoring has gradually moved to a funding model where targeted rates make up 80% of the funding for this activity, with the remaining 20% being funded through the general rate[3]. This is an example of how the council is continuously striving to keep general rates low for all ratepayers, with those either driving the need for activities, or benefitting from their provision appropriately paying for these services[4]. With the proposal capping all rate types, we consider that the council is unlikely to have adequate means to raise the necessary funds to undertake the work that is required by the RMA replacement Bills. We recommend that the government considers the impact of the rate increase on the increase in permitted activity monitoring. The council also undertakes community adaptation work in vulnerable areas, for example in the Wharekawa Coast. Single communities often are unable to fund the full cost of the adaptation work through targeted rates. As such, policies to control rates may affect councils' ability to deliver on adaptation in these communities, where proposed works are in direct response to community demands.
Q4. What council spending will not be able to take place under this target range? Why?	The council makes decisions on how revenue is allocated and which projects receive funding through the LTP and annual plan processes, noting that these processes go through an extensive public consultation process where all ratepayers get to have a say about how their rates investment is spent. However, it is not possible to forecast future decisions about which services may be cut or what aspects of the council's business as usual will be underfunded. Funds are not raised and then allocated; the costs of agreed activities are estimated, which indicates a funding requirement and funds are subsequently raised to service the need, in line with the Revenue and Financing Policy decisions taken by Council. In an environment where the functions and responsibilities of regional councils is being reviewed, this creates a heightened level of uncertainty in being able to estimate what the impact of the rates cap may be on Waikato Regional Council.
Q5. Are changes to the target needed to account for variations between regions and councils? What changes do you propose and why?	Yes. As mentioned above there are differences across councils in the services that they provide. Even with all of the centrally mandated costs and controls in place (detailed above), public transport contracts across the nation are based on procurement led at regional (or PT unit) level and are based on individual tests of the supplier market, resulting in different costs.Districts and regions that have higher natural hazard risks or frequent natural hazard events will be required to provide costly infrastructure and contingency planning. Therefore, it would be appropriate to adjust the rate cap range based on contextual factors for each individual council.

[3] Waikato Regional Council Annual Report 2024/25: PS2526.pdf
[4] In accordance with the funding considerations set out in the Local Government Act 2002 (s101)

	While CPI inflation does not vary much across the country, the inflation in costs faced by councils does, and it is dependent on local needs, demographics, and activities in that area along with local contextual responses (e.g. natural hazard responses, particularly those requiring construction of infrastructure such as stop banks, are directly affected by inflation in construction costs which have soared over recent years). Nominal economic growth (measured by nominal GDP) also varies significantly across regions and districts. For example, for 2024 annual growth in nominal GDP was 5.4 percent for New Zealand but ranged from 0.7 percent in Gisborne to 7.9 percent in the West Coast Region (Waikato's nominal GDP growth was 4.6 percent in that period)[5]. Averaging regional performance over a longer period reduces the range to some extent, but it remains significant and is unlikely to be appropriate for all across the country. Blanket caps applied across a widely varied local government landscape has the potential to disproportionately impact some councils, and subsequently communities, over others. In addition, backward-looking averages are a poor basis for constraining funding that is intended to cover future demand. For example, if the government's economic growth agenda is successful, then the future nominal GDP growth (and hence, demand for local government services and investment) may be significantly higher than that enabled by a backward-looking average of nominal GDP growth. This has the potential to worsen the infrastructure deficit New Zealand already faces.

[5] Regional economic activity report