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Department of Internal Affairs
Via email: ratescapping@dia.govt.nz

HORIZONS REGIONAL COUNCIL SUBMISSION ON A RATES TARGET MODEL FOR NEW ZEALAND

Thank you for the opportunity to submit on this proposal. If there is the opportunity, Horizons would like to speak to this submission.

Horizons Regional Council (Horizons) is the regional authority for the Manawatū-Whanganui Region, extending from south of Levin to north of Taumarunui and from Whanganui across to the east coast, covering an approximate 22,000km^2 in total. Horizons' responsibilities include coordinating our region's response to natural disasters, flood control. managing the region's natural resources, monitoring air and water quality, pest control, facilitating economic growth, and leading regional land transport planning.

Horizons appreciates the opportunity to comment on the proposed rates target model for New Zealand, which if it goes through as proposed will mean local authorities will be subject to a target rate range annual increase of between of 2–4%, excluding water charges and water-related targeted rates, and other non-rates revenue.

Horizons Regional Council has generally supported many of the high-level views and commentary in the sector-wide Taituarā and LGNZ submissions, except for any instances where it might differ from this submission.

The following section outlines high-level points from a regional council perspective, emphasising our commitment to prudent financial management and community outcomes, while highlighting potential risks and considerations if an arbitrary rates cap is imposed.

INTRODUCTION

Overall position

1. We **acknowledge the Government's aim** to improve affordability for ratepayers and encourage fiscal discipline. We agree that cost-of-living pressures are real, and that councils must deliver value for money. We welcome the opportunity to work with Government to create a better framework for local government funding that is fit-for-purpose and supports the wellbeing of our region. This submission also highlights some limitations that we see as unintended consequences of the new framework which would impact our service delivery and potentially our ability to make local decisions that have a positive long-term outcome

FINANCIAL SUSTAINABILITY

2. Our financial sustainability relies heavily on our ability to independently generate revenue, with approximately 80% of our funding coming from our own sources. This revenue enables us to meet our legal obligations and plan responsibly for the long term. We therefore ask the government to

consider this when designing any rates cap, to ensure it does not undermine our financial sustainability.

INFRASTRUCTURE AND SERVICE DELIVERY CHALLENGES

3. Infrastructure cost pressures exceed 2–4%: Council cost drivers (especially infrastructure and environmental projects) have been rising well above the Consumer Price Index (CPI), which measures price changes for a fixed basket of goods and services representing typical *household* spending. Recent analysis confirms critical infrastructure costs, of which CPI is a poor indicator of, are the primary driver of rates increases – for example, construction and civil works inflation peaked around 13–15% annually in 2021–2023[1]. A rigid cap tied to 4% (or less) would likely underfund essential capital programmes, forcing deferral of upgrades and renewals. Horizons Long Term Plan includes significant capital investments such as flood protection, environmental restoration, and public transport improvements. While debt can fund upfront costs, the ongoing debt servicing and depreciation fall on future operating budgets. Under a strict rates cap these pressures could crowd out other services. There is a real concern that delivering our planned capital programme on time would be unrealistic under a 4% cap, putting long-term infrastructure resilience and intergenerational equity at risk.

4. Planned capital works at risk: There are many examples of projects which might require a higher capital expenditure upfront but will have lower running costs Horizons' Long-term Plan outlines significant capital projects (e.g. flood protection enhancements, environmental restoration, public transport improvements). These investments often require upfront spending and borrowing beyond a 4% rates funding increment in certain years. While debt can finance initial costs, debt servicing and depreciation hit future operating budgets, which under a cap could crowd out other services. There is a real concern that delivering our planned capital programme on schedule would be unrealistic under a strict cap, jeopardising long-term infrastructure resilience and intergenerational equity.

5. Upfront investment: Biosecurity investment is an example of where modest, upfront investment delivers strong value for money is the management of biosecurity pests before they become established. Early intervention to control small infestations is significantly more cost effective than responding once a pest is widespread. If rates capping limits councils' ability to fund these preventative actions at the point where they deliver the greatest return on investment, long-term control costs are likely to be substantially higher and ongoing. These losses extend beyond councils to include wider economic impacts such as production loss and the loss of indigenous biodiversity, effectively shifting greater and more enduring costs onto future ratepayers and taxpayers.

Case study: Failing to adequately fund core biosecurity and pest management as a result of a rates cap exposes the Horizons region to significant long-term costs, particularly if high impact pests such as wallabies were to establish here. Data from the Tipu Mātoro Wallaby Eradication Programme[2] provides an idea of the level of investment that could be required if wallabies were to become established in our region. During the 2024/35 financial year, nationally $5.3 million was spent on operational control, 340,000 hectares of land had active management, 17 km of wallaby proof fencing installed (and 58 km since the programme began), 42,000 labour hours, and more than 49,000 km of ground surveillance activity undertaken. These figures demonstrate that eradication and containment becomes extremely expensive once populations are established. Horizons' Regional Pest Management Plan

[1] https://www.lgnz.co.nz/news/publications/analysing-increases-in-local-government-cost/
[2] https://www.mpi.govt.nz/dmsdocument/70529-Tipu-Matoro-Wallaby-Programme-Annual-Report-20242025

recognises that unmanaged pest animals impose significant economic, environmental and social costs on the region, and that containment and eradication require sustained investment to remain effective. Allowing wallabies to enter and spread within the region would therefore commit Horizons to on-going future costs — likely far exceeding the cost of maintaining preventative pest management funding now.

* The national figures relate to those regions so far affected by wallabies (mainly Bay of Plenty, Waikato, Canterbury and Otago).

CREDIT RATING AND BORROWING CONSTRAINTS

6. Constraining revenue growth may inadvertently harm our creditworthiness. We note Standard & Poor's has warned that a "strict rates cap" could lead to credit rating downgrades and higher borrowing costs for many NZ councils[3]. For Horizons, more expensive debt servicing due to a cap-induced downgrade would consume more of the limited rates envelope, reducing funds available for services – an outcome directly at odds with affordability aims.

7. We recommend that any rate cap model must be flexible and cost-reflective, accounting for genuine expenditure growth drivers. An arbitrary 2–4% band is unlikely to reflect real local government inflation however if implemented, the formula should include levers for infrastructure cost indices (e.g. capital PPI), sudden increases in debt servicing, and population growth for all growing areas. This would better enable Horizons to maintain financial sustainability while still respecting the cap's intent.

Recommendations
That any rate cap model be flexible and cost-reflective, accounting for genuine expenditure growth drivers including real local government inflation and community population growth.

If a rate cap model is implemented, the formula should include levers for infrastructure cost indices (e.g. capital PPI), debt servicing spikes, and population growth for all growing areas.

LOCAL VOICE

8. Councils in New Zealand have a strong tradition of local democratic accountability in budgeting – for example Horizons consult the community on its Long-term Plans and any significant rate increase, and elected members are held accountable by voters. Imposing a cap centrally shifts decision-making away from communities, even when locals might support paying for improved services. For example, if our community submits in favour of a targeted rate for a new environmental initiative or upgraded transport service (see box below), a hard cap could prevent Horizons from responding to that mandate. We recommend that there is an opportunity to exceed a rates cap if the community agree that this will provide long-term financial sustainably while meeting our core service delivery obligations set under regulation.

Case study: A local example illustrating the impact that the rates cap (Targeted Rates) may have on Horizons ability to deliver new or improved services to our community:

Proposed rates capping model limit's Council's ability to deliver new or improved services, particularly in flood protection or passenger transport where these are targeted rates and any improvements or work required comes at a reasonable cost. (potentially applies to any targeted rate service).

[3] https://www.lgnz.co.nz/news/media-releases/rate-capping-will-drive-up-interest-rates/

Council has recently signed the contract for public transport service improvements in Whanganui (which has been strongly supported by the community). This will see an increase of approximately $750,000 for the 2026/27 financial year, which would use approximately 1% of the available cap. Proposed regional transport changes, as per the current Regional Land Transport Plan, would see improved services across the region, including the capital connection rail service, use approximately 2% of the available cap in the 2027/28 financial year. Again, these service improvements have been well supported from our communities, along with an acceptance of associated costs.

9. Impact of caps on services: If forced to remain under a low cap, councils would have to prioritise heavily. Horizons would focus on statutory "core" services (e.g. flood management, public transport, recreational facilities), but even those could face cuts at the margins. Valued community programs and "public good" services may suffer – for instance, environmental education, community-led biodiversity projects might be reduced if they fall outside of what is strictly required by statue. We are concerned that a cap could lead to a "lowest common denominator" style of budgeting, undermining quality of life in our region despite our community's willingness to invest in improved outcomes.

10. Consultation and transparency are better tools: We believe that enhanced transparency and community engagement are preferable to a blunt cap. The Local Government Act already mandates balanced budgets and detailed consultation on council financial strategies[4]. Rather than overriding these processes, central and local government should partner to strengthen them – for example, by improving clarity of council financial reporting to ratepayers, or benchmarking efficiency across councils. This would empower communities to guide council spending decisions (and hold councils to account) without stripping away local autonomy.

Recommendation
We submit that enhanced transparency and community engagement are preferable to a blunt cap, and that local government and central government should partner together to strengthen them – for example, by improving clarity of council financial reporting to ratepayers, or benchmarking efficiency across councils.

EQUITY AND FAIRNESS

11. Affordability for whom? We absolutely acknowledge the pressure on households from rates increases, and Horizons remains committed to achieving value and efficiency. However, the proposed model raises questions of intergenerational equity: artificially low rate increases now could lead to larger burdens later (through deteriorating assets or steep "catch-up" hikes). It also shifts costs in less transparent ways – evidence from other jurisdictions shows rate caps often lead to higher user fees and charges[5]. This can affect low-income households (including renters) who might end up paying more for services that were formerly covered by general rates. We encourage further consideration of potential fairness between current and future ratepayers, and between property owners and service users, when designing the cap regime.

ENSURING CENTRAL AND LOCAL ALIGNMENT

12. Alignment with central government: Horizons aims to achieve financial sustainability and affordable rates however this is often challenging to achieve when new responsibilities are legislated for

[4] Section 101 of the Local Government Act 2002.
[5] Council rates cap to 'incentivise' higher user charges – minister - Newsroom

councils to implement. Our submission echoes Taituarā's recommendation that if a cap is introduced, the system must include mechanisms to adjust for new mandated standards or duties – otherwise, councils will be unfairly caught_between obeying central directives and staying under the cap.

13. A recent example of this is the upcoming requirement for employer KiwiSaver contributions to increase from 3% to 4%. Initial estimates indicate that complying with this directive will increase regional rates, reducing the funding available for other activities that form part of Horizons' core business. In addition, there have been instances where other agencies have reduced or withdrawn services in our region. Where we see clear value in retaining these services, Horizons has stepped in to maintain or enhance provision. Two recent examples are outlined below:

Examples regional responses to agency withdrawal or reduced involvement in the Horizons region (2025):

- **Public Transport in Ashhurst:** Horizons Regional Council, after careful consideration, and at the request from the Ministry of Education via our Long-Term Plan process, chose to expand and fund additional public transport services after the Ministry discontinued the school bus service operating between Palmerston North and Ashhurst.

- **Biosecurity Funding:** Horizons increased its investment in biosecurity activities following reduced funding from OSPRI, which created gaps that required additional regional support to maintain service levels.

14. Extending timeframes to three-year planning cycle: We encourage the Government to consider the concept of aligning a cap system with the three-year planning cycle of the Long-term Plan (LTP), using average rates movements across the cycle. This would provide flexibility to manage short-term fluctuations while keeping overall rates growth on track.

Recommendations
If a cap is introduced, the system must include mechanisms to **adjust for new mandated standards and/or duties.**

That consideration be given to applying the rates cap over the three-year planning cycle of the Long-term Plan (LTP), using average rates movements across the cycle.

RISK FOR INFRASTRUCTURE & SERVICE DELIVERY

15. Risk of underinvestment: Both international and New Zealand evidence suggest that strict rate caps tend to reduce overall investment in infrastructure[6]. Horizons Regional Council is particularly concerned about maintaining flood protection, transport networks, and environmental infrastructure under a constrained revenue scenario. We draw attention to the New South Wales experience, where many councils under rate-pegs could not adequately maintain assets, leading to a growing renewals backlog[7]. We are concerned that a similar outcome could occur here impacting

[6] https://www.lgnz.co.nz/news/media-releases/governments-pivot-on-rates-pragmatic-but-concerns-remain/
[7] https://ssroc.nsw.gov.au/wp-content/uploads/2024/05/20240426-SSROC-submission-LG-Finance-Inquiry.pdf

vital services such as flood protection. A new system must not undermine current Government objectives, including the outcomes sought through the resource management and other Government reforms for resilient infrastructure, housing development, and climate adaptation.

16. Missed opportunities to co-fund with other agencies: Regional councils often work in partnership with central agencies (e.g. NZ Transport Agency for transport, or Ministry for the Environment for freshwater improvements). Many of these partnerships benefit from local co-funding. A hard cap may limit our ability to leverage central government funding opportunities because we simply could not raise the local share above the cap. In short, a 4% cap could turn into a ceiling that turns down opportunities for co-funding with multiple agencies to achieve better community outcomes.

17. Exemptions for emergencies and climate events: Horizons supports a rate cap system that has a readily accessible exemption process for extreme events. Our region is vulnerable to natural disasters, such as landslides, slips and floods, that require immediate and substantial expenditure. While the proposal mentions exemptions for natural disasters, the process and timing are unclear. We support the call for a fast-track, “light touch” approval path for genuine emergencies. Without this, councils might forgo insurance, or disaster reserves to stay under cap, a possible outcome noted by Taituarā[8]), leaving communities more exposed. Additionally, climate resilience projects should qualify for special consideration if they would push rates above the cap in the short term.

Recommendations:
The exemption process should be able to be applied to any extreme events that occur – that is extending it out from just natural hazard events.

The process and timing of the exemption process is unclear. A fast-track, “light touch” approval path for genuine emergencies should be developed as part of any rates cap model.

Climate resilience projects – which are essential and urgent for long-term safety – should qualify for special consideration through the exemption process.

Any project that requires short-term investment now – but will save more money in the future should be exempt from the rates cap

ALIGNMENT WITH WIDER REFORMS & CLARITY OF DESIGN

18. Big picture alignment: Horizons is keen to understand how the proposed rates cap will align with wider reforms—including Resource Management, Local Water Done Well, emergency management, and the Simplifying Local Government programme—to assess impacts on our work programmes and future costs. Successful implementation of these reforms will rely on sufficient funding. Coordinating the rates cap with the broader reform agenda will help ensure councils can meet new statutory requirements without being limited by an inflexible cap. While some shifting responsibilities, such as water services, may offer cost relief, many other costs continue to rise. A coordinated approach will support councils to deliver positive outcomes for communities[9].

[8] https://taituara.org.nz/wp-content/uploads/Consultation-on-a-rates-target-model-for-New-Zealand.pdf

[9] The Sustainable Land Use Initiative (SLUI) is an example where Horizons and central government jointly invested to stabilise highly erodible land and improve water quality in the region, proceeding without significant increases to regional rates.

Horizons see potential conflicting objectives between the RMA reforms and this proposal. For example, if we wished to provide regulatory relief mandated under the Resource Management reforms, we would need to find additional funds – or increase rates to compensate landowners for areas of wider community benefit. A holistic, joined-up approach is needed so that funding and function changes are in sync across the reform spectrum.

19. Transition and implementation: We note the planned timeline (integrating the target band into 2027–28 Long-term Plans, full enforcement by 1 July 2029). Horizons request early guidance is provided by the government on how to "consider the rates target" in our forthcoming LTP. We recommend that the Department of Internal Affairs work closely with the sector to develop practical transition arrangements and clear regulatory guidance. If councils are expected to report on financial metrics during the transition, those metrics should be finalised soon (and ideally by mid-2026) so they can be built into Councils planning processes. Uncertainty in this area could result in inconsistent Long Terms Plans or unintended non-compliance.

Questions of clarification are listed below:

20. Question: How will voluntary targeted rates be treated under the proposed cap?
Explanation: Will opt-in schemes such as clean heat loans (where property owners voluntarily agree to repay financial assistance through their rates) sit inside or outside the cap? We consider that opt-in arrangements should be excluded to avoid discouraging innovative financing tools that support community outcomes.

21. Question: How will adjustment factors, such as infrastructure quality measures and population change, be calibrated across councils with different asset profiles and demographics?

22. Question: Will regional councils automatically be classified as "growth areas" when any territorial authority within their boundary is identified as one?
Explanation: Under the National Policy Statement on Urban Development (NPS-UD), Tier 2 classification for a territorial authority is automatically applied to the corresponding regional council. Confirmation that a similar approach is intended for the rates cap framework would be useful.

Recommendations

That the rates cap implementation be **coordinated with other reforms** so that funding and function changes are in sync across the reform spectrum.

That voluntary targeted rates be **excluded** from any rates cap model to avoid inadvertently discouraging innovative financing for community outcomes.

That clarification on whether a region is a Tier 2 Growth area if there is a territorial authority within its boundaries that is a Tier 2 Growth area be provided.

Clarity on how factors such as **infrastructure quality measures** and **population change** is to be incorporated is sought. Consideration as to how regional councils **asset mix** and **demographic dynamics** differ from territorial authorities mix and dynamics should be taken into account.

That the **Department of Internal Affairs work closely with the local government** sector to develop practical **transition arrangements** and clear regulatory guidance so that if introduced, it is workable and fair across different types of councils. To support effective planning, **financial metrics** for the transition period should be finalised by mid-2026 so Councils can embed them in their planning processes.

CONCLUSION

23. Horizons is ready to engage constructively on the design details to ensure local government achieves greater financial sustainability for our communities. We consider a rate cap, if introduced needs to be workable and fair across different types of councils.

24. We encourage the government to reconsider the approach of setting an "arbitrary" 2–4% cap and instead work with local government on a collaborative solution. This could include alternative funding tools, cost-sharing arrangements, and incentives for efficiency that achieve the same objectives without compromising local services or autonomy, or the achievement of our communities' longer-term goals.

25. If a rates cap model does proceed, our Council asks for a design that incorporates the flexibility to deal with real-world cost pressures and community needs, safeguards critical infrastructure investment, and preserves the essential partnership between central and local government in serving our communities.

26. We look forward to working with officials through this consultation to ensure the final framework for local government funding is fit-for-purpose and supports the wellbeing of our region.

Thank you again for the opportunity to submit on this proposal. For further information, or to arrange a meeting please contact help@horizons.govt.nz.

Yours sincerely,

Nikki Riley, JP, BBS, MInstD
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HORIZONS REGIONAL COUNCIL