

Our Ref: NR - 53541

4 July 2026

Department of Internal Affairs - Te Tari Taiwhenua  
PO Box 805  
Wellington 6140



te kaunihera ā-rohe o  
**matamata-piako**  
district council

Dear Department of Internal Affairs - Te Tari Taiwhenua

**Submission on rates target model**

1. Matamata-Piako District Council (Council) provides feedback on the rates target model. Thank you for the opportunity to provide our views.
2. Matamata-Piako District is a rural/urban local government area in the Waikato Region of New Zealand's North Island, located east of Hamilton, forming part of the central "golden triangle" between Auckland, Hamilton, and Tauranga, known for dairy, thoroughbreds, and attractions like Hobbiton, Te Aroha Mineral Spas, Herd of Cows and the Kaimai Ranges.
3. Matamata-Piako District's main towns are Matamata, Morrinsville, and Te Aroha, and a large rural area with a growing district population of over 39,000 (June 2025). The local economic base is predominantly rural with strong dairy, agriculture, and manufacturing industries. The area features diverse landscapes, including the Kaimai Ranges and the Kopuatai Peat Dome.
4. This feedback responds to the proposals for a cap on rates increases announced by the Government on 1 December 2025. If implemented, this would introduce a limit on annual increases in rates of 2-4%. It is proposed that rates cap comes into force in 2029.
5. We have provided general comments first followed by responses to the specific consultation questions asked. Due to the timing of the consultation period, Council has discussed the rates target model but has not formally approved this submission.

**General comments**

6. Council is concerned about the rates target proposal and seeks that it does not proceed in its current form. It will be a significant intervention for local government.
7. We understand the concern about rates increases especially at a time when cost pressures are impacting on households and businesses. When setting rates, Council aims to strike a balance between making rates affordable and receiving enough revenue to provide services and to renew and maintain our assets to required standards. Council also considers the consequences of financial decisions on both current and future generations.

8. Standard & Poor's (S&P) recent report entitled "[New Zealand Local Government Brief: Rates Cap Tightens the Financial Screws](#)", outlines the concerns from a credit rating perspective. In particular, non-rate revenue options are minimal, and exemptions for infrastructure renewal or disaster recovery will be critical. The cap adds to policy uncertainty and may undermine Councils' financial resilience and long-term planning. S&P will assess the impacts for each Council in future credit ratings.
9. Rates account for only 7% of the total tax take in New Zealand. From this small slice Councils build and maintain some of the most essential aspects of our lives: roads, pipes, public transport and community facilities, and waste management and minimisation (section 42 of the Waste Minimisation Act 2008 says a territorial authority 'must promote effective and efficient waste management and minimisation within its district').
10. In our view, Council budgets and the rates target model needs a degree of flexibility for unforeseen circumstances, such as responding to emergencies, when a major pipe collapses or there is a period of expected cost increases. Putting a hard limit on rates will inevitably mean that important maintenance is deferred, delayed or even ignored. Maintenance will end up costing more in the future. We are already seeing the consequences of this in the water and wastewater network where large costs are looming.
11. All 'three waters' rates and charges should be excluded from the rates cap to align with Local Water Done well financial ringfencing and avoid fragmentation of water funding settings, where Council still delivers water services e.g. stormwater remains in-house. Consideration should also be given to excluding roading activities given the depreciation funding and maintenance costs of the network. Council should also be allowed to continue to fully fund renewals/depreciation through rates.
12. The rates cap needs to be considered alongside other central government support measures such as payment of rates on government properties under the Local Government Rating Act 2002 and removing or refunding (in full or part) GST on rates.
13. There also needs to be allowance for where our community supports a higher rate increase to achieve the level of service they desire. If the community supports a new project e.g. a new event centre, or Council providing a certain level of service and is willing to pay for it, Council should be able to accommodate this within the model.

#### International experience

14. Consideration should be given to how rate-capping policies have affected Councils in the United Kingdom (UK) and Australia. In the UK, 12 local Councils have declared bankruptcy since 2018, including Birmingham City Council, Europe's largest local authority which declared bankruptcy in 2024. The Council was forced to cut up to 600 Council jobs, scrap almost all arts funding, and sell 11 community centres. It even agreed to dim streetlights to help save money.
15. We understand the proposed rates target model is based partly on the New South Wales, Australia approach. A [Rates pegging](#) report conducted for the Local Government Association of South Australia stated, "*In particular, it is*



*argued that by imposing financial discipline on local authorities by limiting their ability to increase rates, municipal efficiency will be enhanced. This claim has no empirical foundations”.*

16. The researchers also found rates capping policies led to “worse revenue effort equity, greater debt per capita, lower levels of infrastructure renewal and exhibited much less operational efficiency”.
17. The report cites research which concludes “our analysis provides little support for ratecapping” and that their empirical results “support the unintended deleterious effects cited in the international literature on property tax limitations”
18. Our understanding is that research has consistently found that rate capping doesn’t work. If rate capping worked, we should be able to see the fruits of that success in the UK and New South Wales.
19. Fundamentally, we believe local government across New Zealand (NZ) doesn’t have the financial tools it needs to fulfil its role. Capping rates doesn’t help that – it has the potential to make it worse. The UK and Australia both show the negative consequences of that policy.

#### Challenges for local government in New Zealand

20. The Office of the Auditor General [Insights into local government: 2024](#) report states -

*Councils provide essential services, facilities, and infrastructure to their communities and fulfil important regulatory functions. As stewards of essential infrastructure, they have a responsibility to balance the needs of their current communities with those of future generations. Amid a backdrop of ongoing economic recession, a growing infrastructure deficit, and rising costs, achieving this balance is becoming more challenging.*

*Councils face significant financial and infrastructure challenges.*

*In 2023/24, Councils’ total operating expenses were \$18.1 billion, which is significantly higher than the average over the last five years (\$14.6 billion).*

*A range of factors contribute to this, including high inflation, higher costs relating to new drinking water requirements, increases in interest expenses, and higher insurance premiums. In response, Councils have sought to increase their revenue from rates, increase user charges, and look at how they could make savings.*

*Councils are investing more in infrastructure. After years of underinvestment, many Councils have ageing infrastructure in poor condition. To address this situation, Councils are increasing capital expenditure, and many are embarking on major capital programmes.*

21. It is clear local government faces financial challenges. The issue is that there are essentially two levers to solve this. One lever is to raise rates. There is no other significant source of funding. Or it can choose to “kick the can down the



road". This has led to some of the challenges we have now, discussed above in the Auditor General report. In our view, spending on fancy public toilets (cited as examples of wasteful spending) might not help, but it's at the edges of what is needed.

## 22. Potential impacts of the rates target model

23. The majority of any Council's spending is typically for building and maintaining assets. Key drivers for rates are depreciation, inflation and construction costs. Local Government NZ recently estimated that an extra \$11 billion is needed over the next seven years to meet unexpected cost increases: <https://localgovernmentmag.co.nz/rates-will-never-be-enough/>

24. Council's 2024-34 [Long-Term Plan](#) Financial Strategy sets out our financial goals and challenges:

### **Financial goals**

Our financial goals have been consistent for the last two Long Term Plans. We have strived to:

- Maintain the current levels of service we provide
- Improve levels of service where this complements our vision
- Keep our rates at an affordable level
- Ensure our debt is manageable and allow ourselves some headroom to respond to emergencies or opportunities that may arise

These are still the goals that we want to achieve.

### **The challenge**

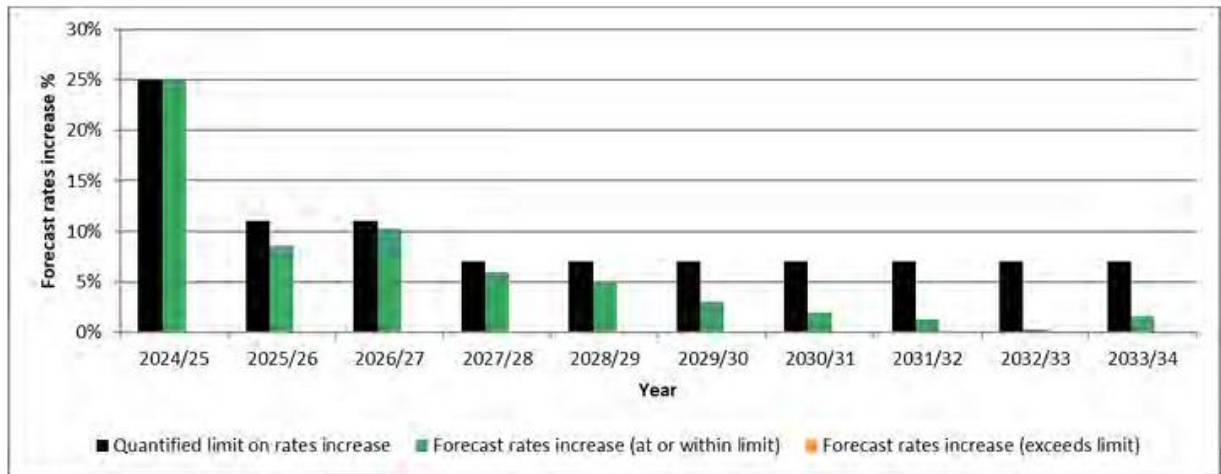
The challenge has become harder as:

- The costs to maintain our levels of service have increased more than what we projected
- We have to accelerate changes to our operations to meet the expectations of regulators, particularly in relation to drinking water and sewerage treatment
- We accept that our systems have to be more robust to deliver the services we provide to the standards expected
- And we understand that these same challenges exist for many local authorities. This means that Councils are competing for staff and resources to meet our needs

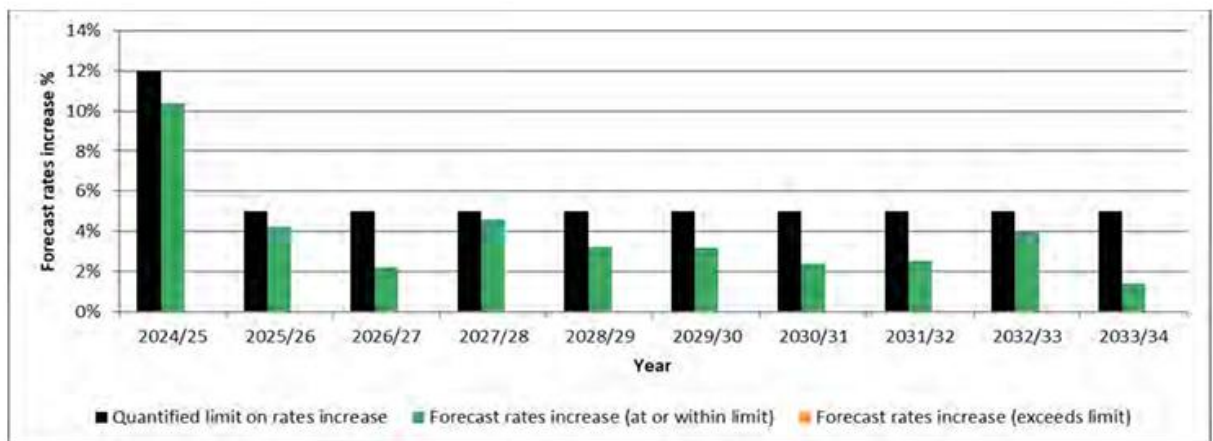
25. Under the Local Government Act 2002, Councils are required to set out a quantified limit on rates increases in Long-Term Plans. The following graphs compare the Council's planned rates increases with the limits in the 2024-34 Long-Term Plan. The quantified limits are:



Rates increases for **three water activities** (including metered water) will not be more than 25% in year one, 11% in years two and three, and thereafter will not be more than 7%.



Rates increases for **other rate funded activities** will not be more than 12% in year one, and thereafter will not be more than 5%.



26. The limits on rates increases set by Council in the 2024-34 Long-Term Plan exceed the proposed rates target model.
27. In the 2024-34 Long-Term Plan, Council took the approach of focusing on the “must do” projects to meet the expected standards. “Nice to have” discretionary projects were mostly cut from the plan to reduce the pressure on rates.
28. At the time of writing, work is underway to develop Council’s budget for the 2026/27 year. It is possible that the rates increase will be higher than that projected in the Long-Term Plan for the 2026/27 year due to several factors including increases to the water targeted rates to fulfil commitments in the Water Services Delivery Plan, increases in interest and depreciation costs, and increases in employee and other overhead costs. We are working to get the rates to the level forecast or close as possible to it.
29. Council’s capital programme is heavily dominated by infrastructure projects. This is influenced by regulation, particularly in three waters, and government funding for roading.

30. The renewal or replacement of roading assets is jointly funded by Council and Waka Kotahi (NZTA). In the projections above, Council has ensured it rates for its own share and have assumed the Waka Kotahi (NZTA) will continue to meet its obligations. This amounts to an average of \$3 million per year which we would otherwise have to include in the rates.
31. When setting the rates target model, it is important to confirm if Waka Kotahi (NZTA) will continue to fund its share of the roading programme. If this is not the case, the rates target model should be adjusted accordingly.
32. In addition, Matamata-Piako faces increasing costs of regulation required by central government, for example.

- Auditing fees: Approximately \$1million over a three-year period to complete required audits of Long-Term Plans and Annual Reports.

The [proposed development levies framework](#) notes the Government is considering independent, centralised, regulation of development levies which may bring additional costs.

- [Water levies](#): To help fund the work of the Water Services Authority – Taumata Arowai with Matamata-Piako District paying a total levy of \$153,481.
- Economic regulator for development levies, under the [Local Government \(Infrastructure Funding\) Amendment Bill](#) - as yet unknown costs for the Commerce Commission to act as the independent regulator for Councils charging development levies
- [Economic regulation of water suppliers](#) with Matamata-Piako District paying a total estimated levy in 2025/26 of \$48,293.
- [Resource Management Reforms](#): Costs to participate and implement the new planning system. This includes costs to jointly create and maintain a regional spatial plan and an associated implementation plan, monitoring and enforcing compliance including the registration and monitoring of some permitted activities and the requirement for a new monitoring and compliance strategy and regulating and managing effects in the context of less consents (and thus less revenue). It's also proposed for Councils to collect a planning consent levy to fund the development and review of national direction and to prepare and maintain the system performance framework. Council must also provide for regulatory relief when rules impact upon certain land uses through rates or fee reductions, or targeted grants etc. Council has 307 items identified in its district plan that may qualify as needing to provide regulatory relief. A regulatory relief framework also needs to be developed within the District Plan and a system for offering relief to affected parties and the associated objections and appeals.
- [Emergency Management Bill](#) proposes to grant the Minister of Emergency Management and Recovery rule-making powers and changes to enable a higher minimum standard of emergency management. This may bring about additional costs for local Councils. The proposed rates target model proposal may create challenges for the Matamata-Piako District Council to achieve their legislative function without compromising their rates cap.



These challenges are compounded by the need to comply with two distinct legislative frameworks, the Local Government Act 2002 and the Civil Defence Emergency Management Act 2002, which impose separate and distinct processes.

33. We are concerned about this proposal in light of the simultaneous and significant reforms affecting local government. The combined impact of a rates cap, resource management changes, 'Simplifying Local Government' and changes to the legislative purpose of local government should be transparently evaluated and communicated.
34. It appears these (and other mandated costs) need to be accommodated / absorbed within the target rate model. This is of concern and provides some examples of additional costs imposed upon local government without the funding tools to support it. For Matamata-Piako a \$0.622 Million increase in operating expense equates to around a 1% in rates.
35. Council's 2024-34 Long-Term Plan Financial Strategy explains that we are already making significant increases to some fees and charges to ensure the fees keep up with the significantly increasing costs. The increases will maintain budgeted fees and charges at around 14% of total revenue over the Long-Term Plan, to reduce the need to put further pressure on rates.
36. We consider that if this proposal proceeds, there will need to be further increases to fees and charges to recover costs. User pays may become the norm as Councils look to generate revenue that would otherwise have been paid through rates. This needs to be balanced with the requirement to only charge reasonable costs as set in some legislation e.g. Resource Management Act.
37. Moving to a more user pays could see charges to access recreational and community facilities increase (such as our pools, events centres, libraries). These services have strong public good elements that support the achievement of public good objectives. For example, our three Council owned swimming pools provide recreational opportunities, support active lifestyles and development of swimming skills. Council's [Revenue and Financing Policy](#) says that Pools are funded 50-70% by general rates and 30-50% via fees and charges. The Policy explains that setting the fees too high will be counter-productive to the outcomes Council is seeking to achieve. If entry fees are too high, visitation will decrease, which if significant can create an underutilised facility.
38. The services that Councils provide that are not prescribed in legislation could be at risk. As costs rise in areas where there are legal requirements, this may require cuts elsewhere. We could envision a future whereby Local government is increasingly about the exchange of contracts for mandated services, rather than creating successful and sustainable communities. We do not see this as desirable.
39. Another potential impact is this proposal may lead to significant reductions in level of service to the Matamata-Piako community as well as impacts on asset condition. While we want to ensure our services remain affordable, we do not necessarily see this as a desirable outcome. Any such reduction should follow a community engagement/consultation process. We are unsure how this and the consultation requirements in the Local Government Act align



with the rates target model. The Local Government Act also requires Council to set limit on rates increases in the Long-Term Plan and it should be clarified how this requirement aligns with the proposed target range.

40. The proposed rates target model may create challenges for Council to achieve its legislative purpose under the Local Government (System Improvements) Amendment Bill and other legislation.

### **Consultation questions**

**1. Do you agree with the proposed economic indicators to be included in a formula for setting a rates target?**

- No - The usual inflation measure comes from the CPI basket of goods, a list of 598 consumer products from vegetables to pillows, hair products, streaming TV services and so on. But Councils don't spend money on the same things households do – Councils build roads, maintain community assets etc. which have different cost drivers. The Local Government Cost Index would be a suitable economic indicator to use.
- We agree in principle with the inclusion of economic indicators that allow flexibility for one-off costs. Extreme events such as emergencies or global economic shocks require rapid funding responses. A rigid rates cap would undermine Councils' ability to fulfil the new purpose of Local Government, under the planned amendment to the Local Government Act 2002.
- We support a mechanism that enables funding for these costs outside the cap, with provision for an appropriate return-to-rate capping band to be applied to maintain fiscal responsibility.
- We support an additional growth component to be included in the model. Council has a role to provide infrastructure and services to support population growth. Applying a single national average would not account for regional/local differences. On face value the various tiers within the NPS-UD may provide a method to identify Councils experiencing growth. However, there are a wide range of Councils included within the Tier 3 classification which experience growth (including Matamata-Piako) and others that do not.
- Council considers there should be an allowance included for all Councils experiencing growth, not only those in Tiers 1 or 2.
- Between the 2013 and 2023 Census, the Matamata-Piako's population has grown by 17.6%. Te Ngira's high projections estimate the district population will grow by 5.95% over the next 5 years and 10.26% in the next 10. In Morrinsville, the population has increased by 14.93% between 2018 and 2023 and is projected to grow by 6.94% by 2030. In Matamata, the population increased by 13.54% between 2018 and 2023, and is projected to grow by 10.41% by 2030.
- There needs to be greater recognition of Interest rate volatility which can have a material impact on Council operating costs. With a rates limit of 5% for non-water activities set for most years of our 2024-34 Long-Term Plan, a shift in interest rates from 4% to 6% would potentially absorb the entire permitted



increase under the proposed cap. An additional margin over headline inflation/interest rates is needed.

**2. If not, what economic indicators do you suggest be included and why?**

- Refer above.
- Additional indicators should include measures of risk exposure, and compliance costs associated with nationally mandated standards or additional responsibilities given to Councils.
- Inflation alone does not account for sudden cost escalations driven by extreme events or legislation and policy changes.

**3. Does setting the minimum of the target in line with inflation ensure that Councils can maintain service standards?**

- No

**If not, why not?**

- Inflation based adjustments do not reflect the additional financial pressures such as risk exposure or compliance obligations.
- Without incorporating these indicators, Councils may struggle to maintain service standards during emergencies or when new national requirements are introduced.

**4. Does the maximum of the target account for Council spending on core services?**

- No - core services are proposed under the Local Government (System Improvements) Amendment Bill. The proposed cap, described as 'a cap on price, not volume,' (which we aren't sure what this means?) does not address cost increases driven by volume factors such as population growth, changes in legislative requirements or community needs and expectations. Without flexibility, Councils cannot meet statutory obligations or respond effectively to sudden, unavoidable costs arising from frequent events or policy changes.

**5. What Council spending will not be able to take place under this target range? Why?**

- It is too early to say for as decisions by Council about what savings may be made to meet this target have not been taken. However, in general under the proposed target range, Council may be unable to deliver on the new purpose of local government set out in the Local Government (System Improvements) Amendment Bill which includes "to support local economic growth and development".
- A capped funding model risks undermining compliance with nationally mandated standards and delivering on local community expectations and levels of service. An example of this is the Emergency Management Bill which enables the Minister to set minimum standards and enforce compliance along with changes in accountability, increased monitoring and increased expectations for funding.



**6. Are changes to the target needed to account for variations between regions and Councils? What changes do you propose and why?**

- There has been little detail provided about the process for applying for exceptions. The process needs to be timely, especially where it is to meet the cost of recovering from a disaster or economic shock.
- Once a rates cap is set, it does not provide for local differences between Councils. There are different rates of population growth, asset lifecycles, and risk profiles between Councils e.g. natural hazard exposures. Councils provide different services and this reflects local decision making and agreed levels of service. As above, variations should provide for community willingness to pay higher rates for a certain level of service and considering actual risk or need.
- There are also different starting points of different councils. Matamata-Piako has compared its rates to neighbouring Councils in the past and found that we have significantly lower rates, as shown in the table below from 2022/23. A flat % cap would not take this into consideration. It is also noted it is challenging to compare rates between Councils; these figures are approximate and only provide comparison at a high level.

<b>Approximate comparison of Council rates for indicator properties 2022/23</b>				
	<b>Matamata-Piako</b>	<b>Hauraki</b>	<b>Waipa</b>	<b>South Waikato</b>
Urban \$796,400	2,967	3,158	3,364	3,868
Rural \$5,010,000	6,718	14,740	7,879	13,584
Commercial \$1,041,600	4,488	6,235	5,276	5,517

- It is proposed the cap starts in 2029, with monitoring of rates to begin in 2027. We seek clarity on how this will apply, in setting Annual Plans and the 2027-37 Long-Term Plan which must set out projected future rates.
- During 2026, we will be developing the 2027-37 Long-Term Plan including the Financial Strategy and Revenue and Financing Policy. If the intent is to enact the rates cap this year, this creates uncertainty, including how Audit NZ will audit our process. Audit protocols must be clear and stable throughout Long-Term Plan preparation and legislation should change requirements mid-process.

Thank you for the opportunity to provide feedback on this proposal. If you have any questions about our response, please contact Manaia Te Wiata, Chief Executive, on 07 884 0060.

Regards



Ash Tanner  
Mayor, Matamata-Piako

