

The Government is proposing councils limit annual rates increases to a target range, anchoring revenue to inflation for essential maintenance and economic growth for improvements.

- ✓ Applies to all sources of rates (general, targeted, uniform general charges)
- ✓ Applies at the aggregate rates level only
- ✓ Must be “considered”, and will be monitored by DIA, from 1 July 2027.
- ✓ Must be complied with, and will be regulated, from 1 July 2029
- ✗ Does not apply to water related rates
- ✗ Does not apply to non-rates revenue sources



**LOWER BOUND (2%):
ALIGNED WITH
INFLATION**

Based on Reserve Bank’s midpoint inflation target.

This figure is consistent with the average inflation rate of 2.1% since 2002 (excluding COVID-19 period)

Designed to ensure councils can collect enough revenue to cover the rising costs of the services and assets they already have (like maintaining roads).

PROPOSED RATES TARGET RANGE
(per capita, per year)



**+ Additional growth component
for expanding districts**

Preliminary analysis indicates this is a justifiable long-run target range; the actual range will be specific for each council



**UPPER BOUND (4%):
ALIGNED WITH
ECONOMIC GROWTH**

Derived from long-run GDP growth (~5.4%), adjusted for growth (~1.5%) and productivity gains (~0.3%).

Population growth is subtracted because new ratepayers generate extra revenue; the cap applies only to price increases for existing ratepayers, not overall revenue.

Intended to allow for the sustainable expansion of services and infrastructure quality in line with economic growth.



**The model assumes a
“steady state”...**

A steady state is where investment is consistent, infrastructure backlogs have been addressed and the ratio of operating spending to capital spending is stable.

When council investment and spending are stable and infrastructure backlogs are resolved, rates should stay at a consistent share of GDP. Historically, rates have been about 2% of GDP, but when councils spend less than this, infrastructure problems tend to appear.

As councils move to separate water charges, rates alone may drop below 2%, but the combined total of rates and water charges will need to be higher to keep up with costs and fix past deficits.



... but the government acknowledges that many councils are not in a “steady state”.

To handle situations where councils are not in a steady state, or face unexpected shocks, the proposal allows for two specific types of variations to exceed the upper bound.



Situation 1: Unforeseen Shock. Applies when a council is knocked out of a steady state by an unpredictable event.

Triggers: Emergency events (like floods) or declared civil defence emergencies.

Process: Because these events require speed, this is designed to be a fast-track. Councils would not need to go through a long approval process with the regulator to access the funds needed to respond.

Requirement: The council must simply show how they intend to return to the target range over an agreed timeframe.



Situation 2: Planned Deviation. For councils not in a “steady state” due to infrastructure backlogs or the need for major new projects.

Triggers: Large-scale infrastructure projects or specific community needs that require funding beyond the cap.

Process: This path is more rigorous. It integrates with the LTP; councils must pass through a “gate” with the regulator before they consult with the public.

Requirement: The council must provide justification (proving the spending is necessary and supported by the community) and explain how they will lower rate increases back into the target band.

The “Return to Band” Rule is a key feature of both variations. Whether a council is fixing flood damage (Situation 1) or catching up on a decade of under-investment in bridges (Situation 2), they must always provide a plan for how they will eventually get their rate increases back down to the 2 – 4% range.



PROPOSED FORMULA TO SET TARGET RANGE FOR EACH COUNCIL

OPERATING EXPENDITURE

This covers day-to-day costs. The formula assumes these costs will rise somewhere between inflation and economic growth

MINIMUM

Inflation

MAXIMUM

Nominal GDP Growth
—
Population Growth
—
Productivity Gain



CAPITAL EXPENDITURE

This represents building, maintaining and fixing assets. The formula is based on three specific drivers for this spending and is expressed on a per capita basis.

Depreciation

+

Quality of Infrastructure

+

Population Growth

Average Residential Population

OPERATING EXPENDITURE

Minimum: Inflation

The bottom of the target range is based on the Reserve Bank’s midpoint inflation target.

This ensures councils can raise rates enough to cover the rising cost of materials and services they currently buy. If a council cannot increase rates by at least the rate of inflation, they effectively have a budget cut and cannot maintain current service standards.

Maximum: Adjusted Economic Growth

The top of the target range is anchored to Nominal GDP Growth (the growth of the economy), but with two specific deductions:

- Minus Population Growth: Because new people pay new rates (volume growth), the formula subtracts population growth so that existing ratepayers aren't charged for that expansion.
- Minus Productivity Gain: The formula subtracts a small percentage based on the expectation that councils should become more efficient over time, just like the wider economy.

CAPITAL EXPENDITURE

+ Depreciation: Replacing worn out assets

The calculation assumes that cost to replace existing assets that are wearing out is covered by depreciation funding ie the money set aside for the loss of value in current assets should be enough to pay for their replacement when they expire.

+ Quality of Infrastructure: Improving quality as economy grows

As the economy grows and incomes rise, communities typically expect better infrastructure.

The calculation allows for spending on improved standards (quality) to rise in line with GDP.

This ensures that the quality of local infrastructure keeps pace with the growth of the economy.

+ Population Growth: Responding to increasing population

While councils must build new infrastructure to serve more people, the rates target calculation does not expect existing ratepayers to foot the entire bill.

The calculation assumes that most costs related to serving new people should be paid for by other tools, such as development contributions / levies. Rates should only cover the remaining portion of growth costs that cannot be recovered from developers.

÷ Average Residential Population: Capped at a price per person

The target range applies to the price per person, not the total amount of money the council collects. If a town grows by 100 people, the council collects rates from those 100 new people on top of the capped increase paid by the existing residents.

Note: Webinar indicated DIA open to using rating units and visitors.

Indicates capital spending funded by rates, calculated as (Cost to replace old assets) + (Cost to improve quality, capped at GDP growth) + (Cost of growth minus developer contributions)