Concerned Ratepayers Kapiti
Being proactive to create positive communities

Rates Capping

A Ratepayers' Perspective

Presentation to the Department of Internal Affairs

25 August 2025

Who are we?

- We are a voluntary community group fighting for fair and sustainable rates on the Kapiti Coast.

- We are working to:

    - reduce the projected (and unreasonable) rate increases
    - challenge the KCDC to get its spending under control
    - reduce the focus and spend on non-core activities
    - make sure community views are heard and considered through 'consultation' processes
    - promote public engagement in KCDC activities
    - provide good information to support residents' vote in the next elections
    - encourage participation in the upcoming election.

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Kapiti Coast Context

- KCDC's Long Term Plan 2024-2034 outlines rates average increases of 115% over 10 years. From a Concerned Ratepayers Kapiti perspective, these increases will be unaffordable for many residents.

- As we see it, the main drivers of the projected rates increases are KCDC's <u>optional choices</u> to:

  - Adopt a cost-plus approach to budgeting – any projected increase in costs is simply passed on through higher rates – eg: overall staffing costs increased by 50% over three years driven by FTE growth and cost per FTE growth. There is no equivalent to the "fixed nominal baseline" approach adopted in central government.
  - Large percentage increases in discretionary spending such as grants to NGOs/art galleries/community groups/iwi (overall 44% increase over the last three years)
  - Significant expenditure on non-core activities – eg: forecast expenditure on "economic development" of about $3 million pa over the next 10 years
  - Large increases to depreciation expenses due to a capital programme over the next 10 years that is equivalent to 1/3 of the current KCDC asset base
  - An early debt reduction programme that starts from 2029/30. In our view, this is programme is un-necessary as (unlike many other Councils), KCDC's debt levels are (and are projected to be) well below the 280% borrowing limit.

Concerned Ratepayers Kapiti Position

- A key enabler of the spending outlined in KCDC's Long Term Plan 2024-2034 is a decision to alter its "fiscal anchor":

  - KCDC used to benchmark rates affordability as rates being no more than 5% of median household income in the district
  - In the LTP, it changed this anchor to 7% of median household income (but the spending plan in the LTP shows KCDC will exceed this limit by the end of the 10-year period)

- This single decision increases KCDC's "budget allowance" by 40% and enables what are, in our view, the low-quality spending choices outlined on the previous slide.

- Concerned Ratepayers Kapiti supports rates capping, as foreshadowed in the Local Government (System Improvements) Amendment Bill, because more stringent fiscal anchors on local government are required. KCDC shows that self-imposed fiscal anchors can be changed – to the detriment of ratepayers – on a whim. This enables low value spending.

- A rates cap will help impose greater financial discipline on KCDC – and better spending choices – than it is willing to impose on itself.

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Options for Rates Capping

- We see two main options for implementing a rates cap:
  - An annual cost index-related cap – eg: rates increases no more than CPI
  - An income-related cap – eg: rates no more than 5% of district median income
- There are a number of design choices related to these two options. Based on our experience in Kapiti, we offer some perspectives on these options and associated design features

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Annual Cost Index Related Cap

- This could be a maximum limit of rates increase based on either:
  - Forecast CPI
  - Forecast Local Government Operating Cost Index.

- If this approach is adopted, we would prefer a CPI based measure as it is independently forecast, measured and verified. Local authorities might prefer an LGCI based index, but measures of LGCI are only provided by BERL (on contract to Councils) and is not independently verified. If an LGCI approach is adopted, LGCI should be forecast and measured by Stats NZ

- Any cost index approach should have an efficiency requirement built into it – eg: a CPI-X (where "X" is an annual efficiency requirement) to avoid the continuation of cost-plus pricing

- The major drawback of this approach is that its impact/outcomes depend on the opening position of each Council:
  - To use an analogy, under central Government's "fixed nominal baselines", some departments found it relatively easy to comply, whereas others genuinely struggled. It depended on whether the opening baseline was relatively generous or stringent to start with.

KCDC Operates a de facto Annual Cost Index Rates Cap

- We expect that the official KCDC position will be to oppose a rates cap, alongside other members of LGNZ
- Yet KCDC operates a de facto annual cost index rates cap now
- In its LTP, KCDC sets out a rates path of a 17% rates increase initially, followed by nine years of consecutive 7% annual increases.
- For the 2025/26 financial year, initially KCDC modeled that it would have to increase rates by over 10% to meet “cost pressures” but it ran a savings exercise to bring the rates increase down to just below the “promised” 7%
- This suggests that KCDC is effectively operating to is a rates cap of increases of no more than 7% per annum.

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Income Related Cap

- This could be a cap that is expressed as a proportion of income – eg: rates being no more that 5% of median household income in the district (the formula previously used by KCDC).

- A reasonable starting point for such a cap would be the recommendation of the 2007 Shand Review into Local Government, that rates should not exceed 5% of household income.

- It may be, however, than for lower income districts, a higher percentage cap might need to be considered, and in higher income districts, a lower percentage income cap. This brings complexity into the design.

- This approach has the benefit of linking the rates burden to resident's ability to pay, and is likely to be a more stable approach than a cost-index method (if the highly variable inflation experience of the past few years is any guide).

- This approach may be less easy for Councils to game – whereas under a CPI-type approach, Councils could increase rates significantly before the indexation regime starts, so that the annual index is applied to a higher starting point.

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Irrespective of the option chosen, there are key design considerations - I

- Council financial management policy will need to be regulated and audited to ensure:
  - That all legitimate costs are included in the rates calculation. For example, KCDC has only just initiated a policy of fully funding depreciation (which we support) and one way to avoid the discipline of a rates cap is to stop funding such costs
  - That a rates cap is not circumvented by increasing user charges above the cost of supply. User charges should (continue to) be covered by the Auditor-General's cost recovery charging guidelines.

- Will need to be a mechanism for handling genuine emergency spending

- There is a need for an unders-and-overs mechanism – sometimes there will be legitimate reasons to temporarily exceed or be below the cap in any one year. We suggest an unders-and-overs mechanism whereby the rates cap must be met over the period of the LTP and the three-year triennium of any elected Council.
  - For example, an "over" in one year of the triennium must be offset by an equivalent "under" the other years of the triennium, so that the cap "balances" over time.

- There will need to be monitoring of, and enforcement/sanctions for, non-compliant Councils – this could either be a call-in by the Minister for Local Government and/or replacement of a Council by Commissioners.

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Irrespective of the option chosen, there are key design considerations - II

- Councillors will need support in making financial management choices:
  - A rates cap will mean that Councillors will be required to make harder financial management decisions – at the moment the decision is to pass costs onto ratepayers through higher rates rather than make the harder spending choices
  - We also see Council staff proposing "Washington monument" spending choices to Councillors, as a way of forcing Councillors to accept the high rates proposals. Councillors face a huge information asymmetry and lack the equivalent of a Treasury-type function to provide an alternative stream of advice on how to manage costs within limits.
  - This existing structural problem will be exacerbated by any rates cap mechanism, and needs to be addressed.
- We suggest there would need to be the ability to permanently exceed or modify the cap – but only if approved by a ratepayer referendum (if it is ratepayers who would wear the costs, ratepayers should make the decision, not a Government Minister). But ratepayers will need access to independent reports on whether any proposed variation to the cap is genuinely unavoidable – the information asymmetry faced by ratepayers is many times worse than that faced by Councillors.

Discussion