

NEW PLYMOUTH DISTRICT COUNCIL

REVIEW OF RATES

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A. INTRODUCTION

1. New Plymouth District Council (**Council**) adopted the 2025/2026 annual plan (**Annual Plan**) and set rates for the year by resolution on 13 May 2025. Following the discovery of the incorrect statement in the resolution that the rates set were "GST inclusive" when they were in fact GST exclusive amounts, the Council set the rates again at the GST inclusive amounts by resolution on 1 July 2025 (**Resolution**).
2. The Mayor then instigated an internal review of the rates process and instructed Simpson Grierson to undertake a formal review of the rates setting documents (with reference to the requirements of section 23(2) of the Local Government (Rating) Act 2002 (**LGRA**)). This involved reviewing the revenue and financing and financing policy in the long-term plan 2024/2034 (**RFP**), the Annual Plan funding impact statement (**FIS**), and Resolution of 1 July 2025.
3. This report records the findings of our review. We have set out some explanation of the statutory process as context to our findings.

B. RFP

4. The statutory purpose of the RFP is to state the Council's policies in respect of the funding of (a) operating expenditure and (b) capital expenditure from the sources of funding listed in section 103(2) of the Local Government Act 2002 (**LGA**), and in doing so, show how the Council has complied with section 101(3) (the 2-step mandatory considerations for deciding on funding sources).
5. The RFP generally meets these requirements at the expected level of generality given it is an inherently high-level policy document.
6. Compliance with section 101(3) is comprehensively addressed in the narrative of the RFP and in tables 1 and 2. We have some comments about the content of these tables:
 - (a) It is somewhat misleading that Table 1 lists general rates as the "High" contributor to the funding of the PIF and Forestry (and perhaps the Airport). These activities are generally a source of funding to offset the general rate rather than a recipient of funding from the general rate. However, we understand that general rates would be the source **if** funding support was required for these activities.
 - (b) Table 1 is described in the narrative as summarising the proportion of funding each activity will receive from the various sources. Table 2 is described as setting out the considerations for how to fund each activity. The narrative at p 255 states "the modifications that the Council specifically made as a result of considering the overall impact are noted in Table 2". There is some inconsistency in the display of the Step 2 (overall impact) modifications. For example, for Flood Protection the modified allocation is set out in Table 1, for Urban Design and Streetscapes, Public Halls, Aquatic Centre and Community Events they are not.

- (c) There are references to the allocations being "high-level" and "indicative". However, it should be clear in the Tables that the bases on which rates are set should reflect the Step 2 modified intentions.
- 7. Our review has not extended to investigating the actual revenue allocations as between the general rate and particular targeted rates for the 2025/2026 year. However, in our opinion even if there were moderately inconsistent allocations, this would be unlikely to impact the ultimate validity of the rates.
- 8. The matters noted in paragraph 6 above in scale and nature do not have the effect of invalidating the rates set. Overall, the RFP is fit for present purposes, but consideration should be given to improving content when the document is next reviewed.

C. FIS

- 9. The statutory purpose of the FIS is to define the details of the rating system for the relevant year (refer to clauses 20(3) to (5) of schedule 10 of the LGA). It is this statement which is the primary disclosure and accountability to the community about the structure of the general and targeted rates. It must set out with particularity:
 - (a) factors on which rates will be set (eg land value, capital value, per rating unit, per separately used or inhabited part of a rating unit (**SUIP**), per connection, per unit of service etc);
 - (b) categories of properties which will be liable for targeted rates (where not all rating units are liable);
 - (c) definitions of any differential categories and the explanation of the differentials (the differences in rate between the categories);
 - (d) specify the activities funded by each targeted rate;
 - (e) the definition of SUIP; and
 - (f) some additional explanations and examples of rating impacts on sample properties.
- 10. Any material changes to the FIS must be consulted on in LTP or annual plan consultation.
- 11. Any specified rates in the dollar, amounts per rating unit etc, should be identified as indicative, at least up to the point that the annual plan is adopted. This is because through the process of consultation, the revenue requirements may change, and the rating mechanisms themselves may be subject to consultation. Ultimately, the rateable values and numbers of rating units etc on which the rates will be assessed (refer to section 43 of the LGRA) will not be known with certainty until the rating information database (**RID**) is corrected as 30 June. This will not be known with certainty until sometime after that date.

12. We have not identified matters which would indicate a material inconsistency with the RFP or with the Resolution, with the exception of the Restricted flow water supply targeted rate. This latter issue is addressed below in relation to the Resolution.
13. Most of our comments are points of clarification or suggestions for the future. Of these, the more material comments include:
 - (a) More clearly identifying in the RFP that the general rate differentials impact the UAGC (as appears from the FIS). In terms of the LGRA and the LGA, the UAGC is not part of the general rate: they are 2 distinct rates. It cannot be assumed that a reference to "general rates" means both the mechanisms. We observe that this approach means that the UAGC may fluctuate substantially as land values change.
 - (b) The use of rating valuation codes to define use of rating units (rather than actual use).
 - (c) Where maps are used to define liability (eg the stormwater targeted rate), they should be of sufficient scale to enable rating units to be identified.
 - (d) There are some matters of detail which we propose to discuss with officers with a view to achieving higher levels of compliance in future.

D. RESOLUTION

14. With the exception of one rate, the resolution of 1 July 2025 is fit for purpose.
15. The exception is the Restricted water supply targeted rate which is expressed as follows in the Resolution:

Rating units connected to a Council supply that have a restricted flow

- a) **A fixed amount of \$418.00 per separately used or inhabited part of a rating unit applied to all properties that are within 100 metres of a serviceable pipeline and are not included in assessments above and are not connected to a water supply.**

16. These words are internally inconsistent, as by reading the title of the rate together with the narrative, it literally targets the rate to those rating units which that are both connected to and not connected to a Council water supply. Contrary to the description of the rate in the FIS, the narrative refers to the incorrect factor of liability (per SUIP instead of per cubic metre supplied).
17. It is apparent that there was an error in transcribing the wording (presumably from the FIS to the Resolution). This appears to be an incorrect cut and paste from the wording of the "serviceable rate" which follows.
18. According to the FIS the wording should have taken the form:

Rating units connected to a Council supply that have a restricted flow

- a) **A fixed amount of \$418.00 including GST per cubic metre of water...**

If this rate is to be collected in 2025/2026, this wording must be corrected by Council resolution. The dollar figure will not change, but the words that follow it will.

19. In relation to the resolution generally, we have some minor observations, none of which otherwise impact the validity of the resolution.
- (a) It is unusual that value-based rates (at cents in the dollar of land or capital value) are expressed to 8 decimal points.
 - (b) It might help to identify the differences in the authority for the water supply rates if the resolution was specific that the metered supply consumption charge and the restricted supply charge are authorised by section 19 of the LGRA, the other water supply rates are solely authorised by section 16.
 - (c) The narrative of the Voluntary Targeted Rate does not need to refer to the date borrows applied: just to the election of a nine year or 5-year repayment period.
 - (d) Strictly speaking all the dates on which penalty is to be added should be **stated** (refer to section 57(2)(b)(ii) of the LGRA) (paragraphs 4,2, 4.7 and 4.9). However, there is judicial authority that this is does not give rise to any invalidity if the date is identifiable.

E. MISREPORTING OF THE AVERAGE RESIDENTIAL RATE INCREASE

The Issue

20. Recent detailed internal review of the rates arrangements for 2025/2026 has identified that there is an issue with the disclosed Average Residential Rate Increase (**ARRI**) in relation to the 2025/2026 annual plan and rates setting decision-making. The headlined figure was 9.9% (and below the 10% quantified limit on rates in the Financial Strategy for the 2025/2026 year) but has now been identified as being 12.8%.

Background

21. Before the 2024/2034 LTP (**LTP**) the Council referred in public documents to the "rate increase" which was a reference to the overall increase in rates revenue from one year to the next. For the LTP, it was proposed that the headline message refer to the ARRI. This was apparently seen to be a more meaningful indicator.
22. There are references to the ARRI at pages 35 and 216 of the LTP, but there is no definition of the concept. It may have been defined in some other public document. In reality, it is a somewhat more complex concept to define and identify than "overall rates increase" and could conceivably be calculated in various ways. It could, for example, be calculated by reference to the total revenue projected to be collected from rating units in the Residential category. The approach adopted for the internal model was to use the rates increase (year on year) for a Residential category rating unit with the median land value (**LV**) (and presumably receiving all services for which targeted rates are set).
23. In the course of adopting the model to be used to assess the ARRI, an internal decision was made to assume the average residential property for 2024/2025 to have an LV of \$390k, with this reducing to \$370k for the 2025/2026 year. This latter assumption was

apparently explained by the possibility that a substantial number of residential properties in the city fringe would be reclassified as Commercial. This assumption may have been speculative, but in the event, no action was taken to review the rating information database (**RID**) to this effect. We understand that the reduction in the Commercial differential factor from 4 to 3 was included in the model. This change had a material bearing on the increase in rates for the Residential category.

24. The model was not updated or reviewed for the 2025/2026 year. The result is that statements about the ARRI in relation to the 2025/2026 rates are incorrect. We understand that in the course of annual plan decision-making, the Council applied six iterations of budget cuts to achieve an ARRI at 9.9% and adopted a budget and consequent rates which it was understood produced that result.
25. This 9.9% percentage was used in official public statements about the annual plan and rates for 2025/2026. In reality, we understand that 95% of residential category rating units have rates increases that range from 7% to 15%. Of approximately 30,000 rating units in the residential category, 21,500 have rates increases of between 12% and 13.5%. A recalculation of the ARRI puts it at 12.8%. This figure is obtained by utilising the current median Residential rating unit LV of \$390,000.
26. We note the overall rates increase (as that term is generally understood) is 9.1%.

LTP Disclosures

27. Section 101A(3)(b) of the LGA requires the Financial Strategy, as part of the LTP, to –
 - (b) include a statement of the local authority's—
 - (i) quantified limits on rate increases and borrowing; and
 - (ii) assessment of its ability to provide and maintain existing levels of service and to meet additional demands for services within those limits.

28. This disclosure is at page 35 of the LTP:

Rate Increase Limit: The average residential rate increase will not exceed 11.5 per cent in 2025 and 10 per cent in the following years

Our residential ratepayers account for over 80 per cent of our total ratepayers and approximately 60 per cent of the land value of our district. The average rate limit includes all rates except for the Voluntary Targeted Rate (VTR).

This limit does not give an indication of the rates increase on different groups of ratepayers as this will vary according to rating structure, targeted rates, growth in rateable properties, land value changes as well as changes in our expenditure and revenue. Because of the proposed changes to our rating system there are also variations in rates increases amongst each sector of ratepayers in the first two years of the LTP.

29. This is followed by a graph showing the proposed increase limit at 10% for 2025/2026 onwards. It also shows what is described as a "deliberation increases" for 2025/2026 of 10.3%.
30. A disclosure statement at page 216 of the LTP includes the following:

Rates (increases) affordability

The following graph compares NPDC's planned rates increases with a quantified limit on rates increases contained in the Financial Strategy included in this LTP. The quantified

limit is that the average residential rate increase will not exceed 10 per cent, except in year one where the limit is 11.5 per cent.

The 2025/26 proposed rates increase exceeds the 10 per cent limit by 0.3 per cent. NPDC will review and revise the average residential rates increases planned for 2025/26 during the annual plan process.

[This is followed by the graph]

Note. The proposed rates percentage increase for years two to 10 is the percentage increase with the base being the prior year proposed rates. In 2024/25 (year one), the proposed rates increase is the percentage increase with the base being the actual rates set in 2023/24.

31. This disclosure is to comply with the requirements of regulations 13, 17 and Schedule 6 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (**Regulations**).
32. The Regulations define "quantified limit" to mean the quantified limit on rates increases (etc) included in the Financial Strategy in accordance with section 101A(3)(b)(i) of the LGA. The term itself is not defined in the LGA. There is a possible issue about whether a quantified limit on rates increases for some, but not all rating units, is fully compliant. However, it appears this issue has not been raised by auditors.

Legal Consequences (in brief)

33. Exceeding quantified limits in the Financial Strategy and Disclosure statement does not affect the validity of the rates. The primary effect of exceeding a quantified limit is the requirement to report on it in the annual report (under the Regulations).
34. In our opinion, there would not be a non-compliance with section 23 of the LGRA simply by virtue of exceeding limits, as compliance with them is not expressed to be mandatory.
35. In the circumstances, we conclude that this issue does not give rise to invalidity of the rates for 2025/2026.
36. The primary consequences of this situation are reputational, based on community expectation about the scale of the rate increase. However, it may be noted that, for the reasons noted above, there is inherent uncertainty in the community's understanding of what the ARRI actually means.

Options to address this issue

37. In our opinion, there are three 3 primary options for addressing the misreported ARRI issue.
 - (a) Collect the rates as set with a commitment to review the ARRI concept for next year. This would be the basis for collecting the annual revenue as intended.
 - (b) Collect the rates as set with the application of an existing rates remission policy, or the introduction and application of a new one, to remit some or all of the increases above a certain threshold. This will lead to a funding shortfall that will need to be addressed. It may also be noted that the ARRI (as

conceived in the Council model) does not inherently specify the rates rise for any residential properties other than those with the median LV.

- (c) Collect the rates as set but undertake a rates replacement process under sections 120 to 130 of the LGRA. This involves a complex special consultative procedure followed by a universal issuing of amended assessments. This could be at a material transactional cost and would take some time. The issuing of amended assessments for all rating units would give rise to increases and decreases in amounts previously assessed with accompanying credits and debits. However, it is the only option which provides some basis for modifying this year's rates from how they are stated in the revenue and financing policy and FIS. It would generally result in assessed rates matching the intended revenue requirements for the year

- 38. A key aspect of any option will be to clearly communicate the nature of the misreporting and its implications.

F. REMEDIAL ACTION

- 39. The GST issue with the rates resolution was resolved on 1 July 2025.
- 40. The failure of the Resolution to set the Restricted water supply targeted rate as provided in the FIS can be resolved by a further resolution relying on section 46 of the Legislation Act 2019 and standing orders prior to the rates being assessed. This amending resolution would solely address the problematic words.
- 41. It is for the Council to consider the options for addressing the misrepresentation of the ARRI and determine what action, if any, it will take.
- 42. We propose a follow-up meeting with officers to discuss various matters of detail in the RFP and FIS with a view to providing a basis for higher levels of compliance in the future.
- 43. Recommendations for systemic improvements are set out in the following section.

G. LESSONS FOR THE FUTURE

- 44. The statutory rate process is undoubtedly complex. Our review has left us with an impression that while the fundamentals of the process were broadly understood by the officials responsible for its implementation, there were nuanced aspects that were not appreciated. This could indicate that key managers did not have a sufficiently sophisticated understanding of the pressure points at which financial, legal or reputational risk could arise.
- 45. In our experience, sophisticated knowledge and understanding of rating process and rating impacts tends to be the domain of specialist officers with longstanding understanding of the rating function, the Council's financial reporting and modelling systems, the valuation and RID data and the district itself.
- 46. There appears to have been a lack of capability in these two areas. This strongly suggests a need for training, and possibly recruitment/restructure and training.

47. An independent review by suitably qualified legal advisers could have identified all of the issues other than the issue with ARRI. This should have occurred before the Annual Plan was adopted and rates set. The ARRI issue might not have been identified by legal review as it relates to an internal financial model. We recommend that an independent legal review be component of the annual rate setting process. We also recommend that consideration be given to a review of rating processes and systems by a financially qualified rating expert.
48. In our opinion it is not appropriate to rely on the statutory audit of the LTP or in relation to the annual report as the quality control of the rate setting process.
49. It is beyond our capabilities to comment on the functionality of software and financial systems used in implementing the current rating system and modelling any proposed changes to it. However, we recommend that, at the very least, there be a review of the RID to test how effectively it reflects the rating system as adopted by the FIS.
50. It also appears that document management may have been an issue. As noted above, the Restricted water supply targeted rate issue appears to have arisen from an incorrect “cut and paste” from another document. This suggests a need to review the process by which the relevant information in the FIS is stated in the rate setting resolution. The resolution has a different function from the FIS and therefore should be expressed in different terms but key aspects for the content should match.
51. We recommend that the Council in the future consider changing the ARRI to the overall rates increase. This would be a more transparent and certain disclosure. If there is reference to the “average” rather than “overall” rates increase, this concept should be defined. Any such change to how the rates increase is formally reported would require an amendment to the LTP as the statutory requirement is part of the Financial Strategy.
52. If the ARRI concept is retained, it should be defined in a public accountability document. The model by which it is calculated should be updated with relevant data each year.
53. The outcomes of the various aspects of the reviews (and the other technical matters identified) could be addressed with the community in consultation in conjunction with the 2026/2027 annual plan.

H. OTHER MATTERS

54. We welcome the opportunity to speak this report and any matters arising from it.

Jonathan Salter
Consultant
Simpson Grierson
20 July 2025