

// **SUBMISSION**

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# Consultation on a rates target model for New Zealand

// Local Government New Zealand's submission

// 3 February 2026



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## About LGNZ

LGNZ champions, connects and supports local government. We represent the national interests of councils.

### Key points

#### LGNZ does not support rates capping

- Rates capping runs counter to localism. Locally elected representatives – who are directly accountable to communities – are better placed than central government to make local taxation and investment decisions.
- Rates capping directly constrains the ability of local government to fund and finance essential services and infrastructure. The proposed model will negatively affect councils' ability to deliver the infrastructure and services that communities expect. Our analysis of available reviews of rate capping policies in New South Wales and Victoria found that while these policies constrained rate increases, they generated significant challenges including degraded infrastructure and service delivery along with reduced economic growth.
- S&P has signalled that rates capping will degrade councils' credit ratings and therefore increase councils' borrowing costs, constraining councils' ability to use debt to fund long-term infrastructure.
- We all want to keep rates as low as possible. Councils want to work with the Government to address the real cost drivers behind rates increases. The proposal doesn't do this.

#### We recommend two key changes to the proposed rates cap formula

While we don't support rates capping, if it was to proceed, we propose two changes to make it more workable.

1. The formula for the upper bound of the rates range should be transparent, cost-reflective and localised. We recommend two substitutions to the proposed formula to achieve this:
  - **Aggregate nominal GDP growth** should be replaced with **general government expenditure nominal GDP growth** as this more accurately reflects councils' costs.
  - The **national population adjustment** should be replaced with **local-area-specific 10-year population growth changes**. Alternatively, there could be an additional "top-up" to the formula of around 3.6% for high-growth areas.
2. Cost shifting from central government should be funded, have a funding mechanism, or be added to the upper bound of the rates range. Not addressing the significant unfunded costs shifted onto local government from central government means that the proposed formula is not transparent or cost-reflective.

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## LGNZ's views on the introduction of a rates cap

The concept of a rates range, as opposed to a cap, has the potential to meet the needs of different councils. However, the proposed rates target model for New Zealand is effectively a rates cap because it applies a hard limit on the maximum increase of rates.

### LGNZ does not support the introduction of a rates cap

#### Rates capping runs counter to localism

Our opposition to rates capping is about who decides what rates increases should be. Locally elected representatives – who are directly accountable to communities – are better placed than central government to make local taxation and investment decisions. Community expectations of council services and assets change over time, and this proposal risks making councils less able to respond to ratepayers.

#### Rates capping directly constrains councils' ability to fund and finance essential services and infrastructure

We agree with the Regulatory Impact Statement that “there is a mismatch between the problem identified by Ministers (lack of fiscal discipline by local authorities), the evidence available (highlighting a range of unavoidable cost pressures), and the limitations on options imposed by prior decisions (rates limitation mechanisms).”

This proposed model will have significant impacts on ability of councils to deliver the infrastructure and services that communities expect. Our analysis of available reviews of rate capping policies in New South Wales and Victoria found that while these policies constrained rate increases, they also resulted in significant challenges, including:

- Degraded infrastructure and service delivery
- Financial instability among councils
- Severe infrastructure backlogs
- Bureaucratic and expensive processes to seek approval to set rates above the cap
- Reduced local economic growth.

Analysis by Infometrics in 2024<sup>1</sup> noted that the key drivers of rates increases in 2024-2034 was significant cost inflation, particularly capital costs, along with operating costs including labour and interest costs. LGNZ's analysis also notes that rates increases have been driven by significant

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<sup>1</sup> Infometrics (2024) *Analysing increases in local government costs*  
<https://www.lgnz.co.nz/news/publications/analysing-increases-in-local-government-cost/>

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increases to the cost of insurance, recovery from significant weather events, and addressing infrastructure deficits (particularly addressing inadequate past investment in asset maintenance and renewal, including in water infrastructure). While the proposed variations process could address instances of significant cost increases, experience from New South Wales suggests these processes are slow and do not adequately relieve pressures.

Infometrics' analysis of the proposed model (attached) estimates rates collected across New Zealand of \$957m for 2023 and 2024 would have been \$957m less under the proposal. Our members say this would have meant:

- Reductions in roading investment over and above any agreement with NZTA.
  - For one council this would have included reductions around stormwater requirements on back roads to stop them being washed away, and reductions in maintaining unsealed roads servicing high-country stations and small, isolated communities.
  - For another council, this would have included delaying safety upgrades and resilience projects on key transport routes, which would have increased long-term maintenance costs.
- Removal of community grants and other community support.
- Significant reductions in events.
- Increased fees and charges for parking, recreation centres and sport field use.
- Charges for waste and recycling, and potential stopping of recycling services.
- Postponing upgrades and development of new libraries, sports facilities, and other public spaces as well as reductions in their opening hours.
- Scaling down or cancelling climate adaptation projects that address critical risks from coastal erosion, flooding, and extreme weather events.
- Reduced investments in modern IT systems for customer service and operations.
- Removing funding from economic development initiatives and from local business awards.
- Reduction or removal of funding to attract and support tourism.

### **Rates capping is likely to lead to higher borrowing costs and constrain use of debt to fund long-term infrastructure**

As noted in the RIS, "rating agencies may downgrade local authority credit ratings because of fixed limits on local authority ability to collect rates revenue. This will flow through to higher interest rates for local authorities and larger interest costs. A small change in interest rates can lead to significant increase in the cost of debt given the large amount of debt that local authorities have."

Rising debt-servicing costs have been a significant driver of recent rates increases, and changes to credit ratings will make existing borrowing more expensive. The proposal to cap rates effectively undermines recent calls from the Government for councils to take on more debt to pay for infrastructure.



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**Councils want to work with the Government to address the real drivers behind rates increases and diversify funding tools for councils**

A move to cap rates without any work to address the real drivers of rates increases will only reduce investment in key services and infrastructure. Councils want to work with the Government to address the actual drivers of cost increases. This would reduce rates increases and ensure appropriate investment in key services and infrastructure.

Councils are also highly reliant on rates as a funding source. Councils want to work with the Government to expand funding tools so that they can reduce reliance on rates while providing adequate funding for the infrastructure and services their communities need.

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## LGNZ's response to the proposed rates target model

LGNZ commissioned analysis from Infometrics to support local government's responses to this proposal. This analysis is included with this submission (as attached) to inform DIA's further work on the rates target model.

### The proposed rates target does not fulfil its agreed design principles

In agreeing to progress work on a rates capping system, Cabinet's Expenditure and Regulatory Review Committee agreed the following design principles:

3. Independent – determined by an independent authority
4. Transparent – simple for councils and their communities to understand
5. Cost-reflective – accurately reflects cost changes for councils
6. Localised – considers differences between councils across the country

The proposed rates target model does not reflect these design principles.

### The lower bound of the target range is not cost-reflective

We are not seeking change to the proposed lower bound of the target range. However, some councils legitimately secure a democratic mandate to reduce services or increase user charges, in order to reduce rates. Any concerns about councils not adequately investing in core services and assets is better addressed through other policies, such as greater benchmarking, rather than requiring a minimum level of annual rates increase.

We note that the proposed economic anchor (the midpoint target band of the RBNZ policy target) is arbitrary and not an appropriate measure of cost increases for councils. As noted in the proposal, average inflation since 2002 has been consistently above the midpoint. Inflation is currently outside the target band, at 3.1 per cent.

Headline inflation (generally measured by the Consumers Price Index) is a poor indicator for local government costs for two reasons. First, cost pressures for local government vary considerably depending on the type of work being undertaken at any given time. Second, the type of work being undertaken by local government is different from household activities, and unlike many businesses.

### The proposed capex elements of the formula are not workable or transparent

It has been challenging to engage with the proposed rates target model given the capex elements of the proposed formula are not defined, measurable or quantified for each council in a consistent way.

Two of the three elements (depreciation and quality of infrastructure) do not have a clear proposal about how they would be set. This lack of clarity includes what data will be used as the basis of the calculation, and whether the capex calculation is at a local level based on local data or at a national average level.

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This means the proposal's real impacts could not be modelled against the proposed outcome. Given the lack of clarity on these key elements, we are concerned this formula would not deliver sufficient funding to maintain assets and support growth with infrastructure. It seems likely councils will need to address capex constraints through a potentially expensive and politically challenging variation process. The challenges of a formula that does not have key definitions or data for some of the components could signal that its implementation would be unclear and costly.

The formula should take into account requirements to maintain current assets, to close current infrastructure gaps, and to meet the costs of future growth-related infrastructure. It should also reflect increasing expectations from communities of assets and services delivered. We would welcome future engagement on these elements to ensure they are measurable and reflect actual costs.

Specific attention needs to be paid to fully funding depreciation. The formula must promote this by factoring in the revaluation of assets, which has a significant impact on the cost of depreciation.

### **The proposed operational elements of the upper bound need to be reworked to be cost-reflective, transparent and localised**

#### **The current set of economic anchors do not adequately reflect real cost changes for councils**

Analysis by Infometrics (attached) concludes there is limited justification for aligning the upper bound of the rates target with nominal total GDP growth (with adjustments for population and productivity). This is because total economy changes don't necessarily reflect local or central government trends and work undertaken. Total nominal GDP growth has averaged 5.9%pa over the last decade. General government GDP growth has averaged 7.1%pa over the last decade.

#### **More regard should be given to local differences, including in economic activity and population**

There are 12 local areas (18% of all areas) that experienced long-term GDP growth above the national average, and 19 areas (28% of all areas) that experienced long-term population growth above the national average. Any rates cap calculation based on national annual average population growth will materially impact high-growth councils, where growth locally will not be adequately recognised in the calculation of their rates cap.

#### **To address this, we suggest replacing the operating component of the formula**

To ensure the formula is cost reflective and appropriately localised, we propose that it be adjusted to:

- Replace **aggregate nominal GDP growth** with **general government expenditure nominal GDP growth**
- Replace the **national population adjustment** for the capex component with **local-area-specific 10-year population growth changes**. Alternatively, there should be an additional "top-up" to the formula of around 3.6% for high-growth areas.

#### **The cost impacts of tourism should be addressed**

Tourism generates significant operating and capital costs for a number of councils. If this was not offset, then areas with high tourism could be further impacted by this cap. Our preference is to address through new funding mechanisms for local government, such as a 'bed tax' that would see

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the beneficiaries of these services and assets contribute to their costs. In the absence of these tools, then there should be an adjustment to the rates cap for councils with high tourism.

### **Cost shifting from central government needs to be factored in for the formula to be cost-reflective and transparent**

Central government reform is a significant driver of costs to local government. For example, two currently proposed bills estimate additional costs to councils:

- \$82.8 million across four years to implement the Emergency Management Bill<sup>2</sup>
- An estimated \$870 million for the establishment and ongoing administration of the proposed Resource Management system. This will add an estimated \$199.5 million in additional compliance costs to the current cost of administering the current system.<sup>3</sup>

These are just two examples. Government cost shifting, increases in standards, or reductions in councils' ability to recover costs have significant impacts on local government finances. Research by NZIER<sup>4</sup> found that many central government reforms result in increased costs for ratepayers, and central government often underestimates what its reforms cost councils. It also found that the true costs are often hidden because councils absorb them by reducing other service delivery, although rates capping will reduce councils' ability to do this.

Ratepayers end up paying for cost shifting from central government, and the proposed rates cap formula does not factor in these costs. This means that under the proposed formula, continued cost shifting from central government would reduce councils' ability to invest in key assets and services.

There are two potential ways in the Government could address this issue when reforms create costs for local government:

- a. Provide direct funding or provide new funding mechanisms to offset the cost shifting. For example, the Waste Disposal Levy partially offsets the costs councils face to meet the requirements of the Waste Minimisation Act 2008.
- b. Add these costs on top of the upper bound of the target range.

To enable greater transparency of councils' costs, we would support the regulator being required to monitor and report on cost shifting from central government as part of its work.

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<sup>2</sup> <https://www.regulation.govt.nz/assets/RIS-Documents/Regulatory-Impact-Statement-Strengthening-New-Zealands-emergency-management-legislation.pdf>

<sup>3</sup> [https://www.regulation.govt.nz/assets/RIS-Documents/Supplementary-Analysis-Report-Replacing-the-Resource-Management-Act-1991-Further-Policy-Decisions\\_Redacted.pdf](https://www.regulation.govt.nz/assets/RIS-Documents/Supplementary-Analysis-Report-Replacing-the-Resource-Management-Act-1991-Further-Policy-Decisions_Redacted.pdf)

<sup>4</sup> NZIER (2024) *Cost impact of central government reforms*  
[https://d1pepq1a2249p5.cloudfront.net/media/documents/Cost\\_impacts\\_of\\_central\\_government\\_reforms.pdf](https://d1pepq1a2249p5.cloudfront.net/media/documents/Cost_impacts_of_central_government_reforms.pdf)