

**Submission**

**By**

**THE  
NEW ZEALAND  
INITIATIVE**

To the

**Department of Internal Affairs**

on the

**Consultation on a rates target model for New Zealand**

4 February 2026

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## 1. INTRODUCTION

- 1.1 This submission on the proposed rates target model for New Zealand is made by The New Zealand Initiative (the Initiative).
- 1.2 The Initiative is a Wellington-based think tank supported primarily by major New Zealand businesses. We undertake research that contributes to the development of sound public policies in New Zealand, and we advocate for the creation of a competitive, open, and dynamic economy and a free, prosperous, fair, and cohesive society.
- 1.3 A well-functioning local government system is vital for democratic accountability, fiscal prudence, and sustainable economic growth. The Initiative has published extensively on these issues, most recently in *Making Local Government Work* (December 2024) and in our submission on the Local Government (Systems Improvements) Amendment Bill (August 2025).<sup>12</sup>
- 1.4 We share the Government’s concern about rates affordability. Average rates increases reached 15 percent in draft 2024/25 Long Term Plans, with 2025/26 averaging around 8 percent.<sup>3</sup> Local authority rates inflation reached 12.2 percent in the year to June 2025 – the highest in decades.<sup>4</sup> These are not sustainable trends, and households struggling with cost-of-living pressures have legitimate grievances.
- 1.5 However, we submit that the proposed rates target model addresses the wrong side of the problem, risks entrenching infrastructure underinvestment, and should be replaced with measures that strengthen local democratic accountability rather than centralise fiscal decisions in Wellington.

## 2. SUMMARY AND RECOMMENDATIONS

- 2.1 We do not support a centrally administered rates target. While the Government’s concern about rates affordability is legitimate, the proposed model constrains revenue rather than spending, centralises decisions rather than strengthening local accountability, and applies a steady-state formula to a system that is nowhere near steady state.
- 2.2 Our recommendations are as follows:
  - a) Do not proceed with a binding national rates target.

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<sup>1</sup> The New Zealand Initiative, *Making Local Government Work*, December 2024,

<https://www.nzinitiative.org.nz/reports-and-media/reports/making-local-government-work/>

<sup>2</sup> The New Zealand Initiative, *Submission on the Local Government (Systems Improvements) Amendment Bill*, August 2025, <https://www.nzinitiative.org.nz/reports-and-media/submissions/submission-local-government-systems-improvements-amendment-bill/>

<sup>3</sup> LGNZ, *Drivers behind rates rises across the country laid bare*, 14 March 2024, <https://www.lgnz.co.nz/news/media-releases/drivers-behind-rates-rises-across-the-country-laid-bare/>; Taxpayers' Union, *Rates Dashboard 2025*, [https://www.taxpayers.org.nz/rates\\_dashboard\\_2025](https://www.taxpayers.org.nz/rates_dashboard_2025)

<sup>4</sup> Statistics New Zealand, as cited in S&P Global Ratings, *New Zealand Local Government Brief: Rates Cap Tightens The Financial Screws*, 2 December 2025, [https://ltp.gw.govt.nz/assets/Documents/Documents/2025/12/RatingsDirect\\_NewZealandLocalGovernmentBrief\\_RatesCapTightensTheFinancialScrews\\_3488017\\_Dec-2-2025.pdf](https://ltp.gw.govt.nz/assets/Documents/Documents/2025/12/RatingsDirect_NewZealandLocalGovernmentBrief_RatesCapTightensTheFinancialScrews_3488017_Dec-2-2025.pdf)

- b) Focus on the spending side through the Local Government (System Improvements) Amendment Bill's transparency and reporting requirements.
- c) Introduce spending referendums for major projects that exceed defined thresholds, placing fiscal discipline in the hands of ratepayers rather than bureaucrats.
- d) Consider a Ratepayer Bill of Rights framework that could allow a rates cap to be exceeded through a referendum mechanism, so preserving democratic choice.
- e) Commit to funding central government mandates rather than imposing unfunded costs on ratepayers.
- f) Progress funding tool reform before constraining existing revenue sources.
- g) Work with the local government sector and other stakeholders to review the Local Government Cost Index (LGCI) methodology to ensure it is fit for purpose as a benchmarking tool.
- h) If any rates target proceeds, there should be no minimum floor.

### 3. THE PROBLEM IS REAL

- 3.1 The Initiative does not dispute the problem the Government is trying to solve. Rates increases have been excessive, and ratepayers are right to be concerned.
- 3.2 We have been critical of councils that have pursued ambitious projects and hiking rates while neglecting core infrastructure. Wellington City Council, with its well-reported problems, exemplifies the problem.<sup>5</sup>
- 3.3 However, diagnosis matters. The Government's framing – that rates increases reflect 'lack of fiscal discipline' and spending on 'nice-to-haves' – captures part of the picture but misses larger structural forces.
- 3.4 The Department of Internal Affairs' (DIA's) Regulatory Impact Statement acknowledges that recent rates increases are substantially driven by unavoidable pressures.
- 3.5 Multiple official and sector sources accept that local government faces a significant infrastructure backlog, with clear evidence of under-investment in renewals and capacity relative to service expectations, especially in three waters and local transport.<sup>6</sup> The

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<sup>5</sup> For example:

- New Zealand Herald, *Wellington Town Hall earthquake-strengthening skyrockets to \$329m*, 3 October 2023, <https://www.nzherald.co.nz/nz/wellington-town-hall-earthquake-strengthening-skyrockets-to-329m/J62I3GQR2ZH6BPU3DNOVLKPCBA/>
- New Zealand Herald, *Wellington Central Library Te Matapihi's \$217m renovation cuts 80,000 books from collection*, 16 January 2026, <https://www.nzherald.co.nz/nz/wellington/wellington-central-library-te-matapihis-217m-renovation-cuts-80000-books-from-collection/premium/DPUAGRN6IJARCWBY4APWTWZEM/>;
- Radio New Zealand, *Wellington water loss drops but warning investment in new pipes needed*, 28 July 2025, <https://www.rnz.co.nz/news/national/568225/wellington-water-loss-drops-but-warning-investment-in-new-pipes-needed>;
- Radio New Zealand, *Ratepayers across Wellington region face increases as long-term plans approved*, 28 June 2024, <https://www.rnz.co.nz/news/national/520733/ratepayers-across-wellington-region-face-increases-as-long-term-plans-approved>

<sup>6</sup> For example, Hon Chris Bishop, *Speech to the LGNZ Infrastructure Symposium*, 24 June 2024, <https://www.beehive.govt.nz/speech/speech-lgnz-infrastructure-symposium>

Auditor General has repeatedly warned of councils not replacing infrastructure at the rate it is being run down, with many not fully funding depreciation.<sup>7</sup> Infrastructure materials costs have risen sharply over the past three years – bridges up 38%, sewage systems up 30%, roads and water up 27%. Insurance premiums have increased 12-30%. Higher interest costs have also helped push up rates to cover debt servicing.<sup>8</sup>

- 3.6 New Zealand has an infrastructure efficiency problem. Te Waihanga, the New Zealand Infrastructure Commission, has documented that while New Zealand spent more per capita than any other OECD country on infrastructure between 2010 and 2019, it ranks in the bottom 10 percent of OECD countries for infrastructure spending efficiency.<sup>9</sup>
- 3.7 Taxpayers and ratepayers alike are not getting value for money. But this efficiency gap stems from fragmented planning, regulatory complexity, poor project selection and delivery, and suboptimal use of existing assets – not from a lack of central revenue constraints. Rate-capping would do nothing to address these root causes. If anything, it would compound the problem by forcing councils to defer maintenance and skimp on project quality, worsening efficiency outcomes rather than improving them.
- 3.8 Around two-thirds of council capital expenditure goes to network infrastructure (roading, water supply, wastewater, stormwater, and flood protection).<sup>10</sup> The problem is not primarily that all or even most councils up and down the country are spending heavily on extravagant non-core activities (although some have been). It is that the combination of catch-up investment, cost inflation and mandated responsibilities has outstripped a revenue base that relies almost entirely on property rates.
- 3.9 Adverse events, such as storms, flooding, wildfires, and earthquakes, can cause significant damage to council assets, trigger costly emergency responses, and impose expensive repair and rebuild bills – as well as higher ongoing insurance premiums. Climate adaptation will impose more costs in future. The National Adaptation Framework, released last year, recognises significant cost implications for local government.<sup>11</sup> Local Government New Zealand has noted an ongoing lack of clarity about who pays, warning that very large adaptation costs are likely to fall on councils, which currently lack sufficient funding and financing tools to meet these obligations.<sup>12</sup>
- 3.10 Another problem is unfunded mandates. Central government imposes significant costs through regulatory requirements without commensurate funding. Implementation of the Resource Management Act and its national directions (for example, national policy

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<sup>7</sup> Office of the Controller and Auditor General, *Insights into Local Government: 2023*, August 2024, <https://oag.parliament.nz/2024/local-govt/part-4>

<sup>8</sup> Infometrics, *Analysing increases in local government costs*, report prepared for LGNZ, 2024, [https://d1pepq1a2249p5.cloudfront.net/media/documents/Analysing\\_increases\\_in\\_local\\_governme nt\\_costs\\_LI2BVKU.pdf](https://d1pepq1a2249p5.cloudfront.net/media/documents/Analysing_increases_in_local_governme nt_costs_LI2BVKU.pdf)

<sup>9</sup> New Zealand Infrastructure Commission / Te Waihanga, *Draft National Infrastructure Plan*, June 2025, pp. 5, 20-21, <https://tewaihanga.govt.nz/national-infrastructure-plan>

<sup>10</sup> Office of the Auditor General, *Water and Roads: Funding and Management Challenges*, June 2014, Part 2, para 2.72, <https://oag.parliament.nz/2014/assets/docs/water-and-roads.pdf/view>

<sup>11</sup> Ministry for the Environment, *National Adaptation Framework*, October 2025, <https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/adapting-to-climate-change/national-adaptation-framework/>

<sup>12</sup> Local Government New Zealand, *Councils need more clarity around climate adaptation*, July 2025, <https://www.lgnz.co.nz/news/media-releases/councils-need-more-clarity-around-climate-adaptation/>

statements for Freshwater Management and Urban Development), speed limit policy changes, tougher drinking water standards, tightening building regulation (including for earthquake-prone buildings), and other mandates fall on councils and their ratepayers. They may be necessary, but many have been imposed with little or no say, or even any input, from the councils expected to implement, administer, and enforce them.

- 3.11 The Government needs to help councils with meeting these imposed costs. As well as specific assistance payments, this could include removing the rates exemptions for Crown land used for schools, universities, hospitals, courts, and other operational purposes. Conservation land managed by the Department of Conservation could reasonably remain exempt from general rates given its different nature. Still, it should remain liable for targeted rates where specific infrastructure and services are provided.

#### **4. RATES CAPPING IS NOT THE ANSWER**

##### **Australian Evidence is Overwhelmingly Negative**

- 4.1 New South Wales has operated rate-pegging since 1977. The evidence is overwhelmingly negative. The DIA’s own research paper documents that 50.8 percent of NSW councils reported required asset maintenance expenditure exceeded actual maintenance expenditure in 2020-21; 127 of 128 councils have applied for special rate variations since 2000; the rate peg “has contributed to financial sustainability issues faced by councils in NSW today”; and academic research on rate capping outcomes is “unanimously critical”.<sup>13</sup>
- 4.2 Local Government NSW reports that councils had accumulated an infrastructure backlog of \$5.6 billion by 2021-22, with 54 percent of councils failing to reduce their backlog to the benchmark of 2 percent.<sup>14</sup> Because NSW rate-pegging constrains general rates but excludes stormwater, waste, water and sewerage charges, councils have strong incentives to rely more heavily on user-pays charges as a revenue substitute, a pattern that NSW Treasury and others have warned can distort revenue sources and lead to inequitable pricing. The New Zealand Initiative supports user charges when they promote efficient resource use; the problem arises when regulatory constraints on one revenue source distort pricing decisions for others.
- 4.3 LGNSW is therefore firmly of the view that rate pegging should be abolished. The NSW Parliamentary Inquiry recommended the Government “redesign the local government rating system”.<sup>15</sup>
- 4.4 Victoria introduced rate-capping in 2016. A 2024 Victorian Parliamentary inquiry found that rising infrastructure and service delivery costs are outpacing growth in grant funding,

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<sup>13</sup> Department of Internal Affairs research paper on Australian rate-capping experience, as cited in DIA Regulatory Impact Statement, [https://www.dia.govt.nz/diawebsite.nsf/Files/Proactive-Releases-2025-26/\\$file/Rates-capping-RIS-December-2025.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Proactive-Releases-2025-26/$file/Rates-capping-RIS-December-2025.pdf)

<sup>14</sup> Local Government NSW, submission to NSW Parliamentary Inquiry into the ability of councils to fund infrastructure and services, 2024, [https://lgnsw.org.au/common/Uploaded%20files/Submissions/2024/Inquiry\\_into\\_Ability\\_to\\_Fund\\_Infrastructure\\_Services.pdf](https://lgnsw.org.au/common/Uploaded%20files/Submissions/2024/Inquiry_into_Ability_to_Fund_Infrastructure_Services.pdf)

<sup>15</sup> NSW Parliament, Standing Committee on State Development, *Inquiry into the ability of local governments to fund infrastructure and services*, November 2024.

leading to some services being reduced and others being stopped altogether.<sup>16</sup> The Victorian Auditor-General raised concerns about lower rate revenue for rural shires due to rate capping as early as 2016. The number of Victorian councils posting a budget deficit has increased from 23 in 2018-19 to 37 in 2022-23.<sup>17</sup>

- 4.5 South Australia considered introducing rate-capping in 2018. Its government introduced legislation, but it was defeated in the Upper House in 2019 following extensive analysis of the NSW and Victorian experiences.<sup>18</sup> Academic research compared South Australia with rate-capped NSW and concluded that “rate-pegging should not be imposed on South Australia’s local government and instead other more promising policies considered”.<sup>19</sup> On three key measures – revenue effort, financial sustainability, and efficiency – the rate-capped NSW councils performed on average inferior to their South Australian counterparts. South Australia instead pursued transparency and benchmarking reforms.

### **‘Starving the Beast’?**

- 4.6 Proponents of rates capping argue that constraining revenue will “force councils to prioritise spending, seek efficiencies, and engage more transparently with their communities.”<sup>20</sup> There is something to this. Councils have the scope to reduce back-office costs, trim policy and communications functions, and find productivity gains that comfortable funding has not forced them to pursue. Pressure can concentrate minds.
- 4.7 But a blunt rates cap cannot distinguish between a dollar spent on an extra communications adviser and a dollar spent repairing a stormwater system. It squeezes both equally. And when councils face that pressure, the political incentives point in the wrong direction. Voters notice closed libraries and cancelled programmes; they do not notice a pipeline with five years of remaining life instead of fifteen. Staff reductions generate controversy and resistance; deferred maintenance generates nothing – until the pipe bursts. Rate-capping does not selectively impose discipline on the spending where efficiency gains are available. It imposes discipline on the spending that is easiest to hide.
- 4.8 The Australian evidence bears this out. Rate-capped councils did not become leaner bureaucracies running tighter ships. They accumulated infrastructure backlogs, shifted costs to fees and charges, and applied for variations. If the goal is genuine efficiency in council operations, better tools exist: transparency and benchmarking that expose outlier spending, democratic pressure through better-informed ratepayers, and referendums that force councils to justify major commitments. These target the right spending. A rates cap does not. The Australian evidence bears this out. Rate-capped councils did not become leaner bureaucracies running tighter ships. They accumulated infrastructure

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<sup>16</sup> Parliament of Victoria, *Victorian councils need fairer share of funding according to new report*, 2024, <https://www.parliament.vic.gov.au/news/economy/localgovreport/>

<sup>17</sup> Vic Councils, *Cost Pressures*, citing Victorian Auditor-General reports, <https://www.viccouncils.asn.au/what-councils-do/council-funding/cost-pressures>

<sup>18</sup> LGA South Australia, *Rate Capping*. The South Australian Government introduced rate capping legislation into Parliament in 2018, but it was voted down in the Upper House in 2019, <https://www.lga.sa.gov.au/sa-councils/local-government-in-sa/rate-capping>

<sup>19</sup> Professor Brian Dollery, University of New England Business School, research comparing South Australia with rate-capped NSW, as reported in Government News, *Research warns South Australia on rate cap*, 2 August 2018, <https://www.governmentnews.com.au/research-warns-south-australia-on-rate-cap/>

<sup>20</sup> New Zealand Taxpayers Union, *Cap Rates Now*, [https://www.taxpayers.org.nz/cap\\_rates\\_now](https://www.taxpayers.org.nz/cap_rates_now)

backlogs, shifted costs to fees and charges, and applied for variations. If the goal is genuine efficiency in council operations, better tools exist: transparency and benchmarking that expose outlier spending, democratic pressure through better-informed ratepayers, and referendums that force councils to justify major commitments. These target the right spending. A rates cap does not.

### **The Formula Rests on a Hypothetical That Does Not Exist**

- 4.9 The proposed 2-4 percent band is derived from a formula that explicitly assumes a ‘steady state’ where “investment is constant as a share of GDP, the infrastructure deficit has been addressed, and the share of operational spending to capital spending is constant”.<sup>21</sup>
- 4.10 New Zealand is not in this steady state. The infrastructure deficit has not been addressed – it is large and growing. Investment is not constant as a share of GDP – it has been inadequate for decades. The formula describes a destination, not the present reality.
- 4.11 Imposing a steady-state constraint before that state exists is like telling someone with a leaking roof they can only spend what a household with a sound roof would spend on maintenance. The leak does not go away. It gets worse. And the eventual repair bill is larger.
- 4.12 The DIA acknowledges this tension in its consultation letter: “rates + water charges will need to exceed the historic trend for councils and water services to be financially viable and catch up on historic deficits”.<sup>22</sup> Yet the formula imposes a constraint derived from historical trends. This is internally contradictory.

### **The RIS Failed Quality Assurance**

- 4.13 The DIA’s own quality assurance panel found the Regulatory Impact Statement (RIS) “does not meet the quality assurance criteria” and “does not contain sufficient information and analysis to allow Ministers to make a properly informed decision”.<sup>23</sup>
- 4.14 The panel identified “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”. It suggested that information limitations “could have been alleviated by waiting to develop policy on rates caps until after standardised reporting of council spending was in place, allowing for cleaner analysis of the impacts on the rates cap”.
- 4.15 This is a notable finding. The agency responsible for the policy cannot recommend it over the status quo – both are rated as having “equivalent net benefits and costs”. Proceeding despite a failed RIS, and despite DIA’s inability to recommend its own proposal, suggests a policy driven by political commitment rather than analytical rigour.

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<sup>21</sup> Department of Internal Affairs, Consultation letter to The New Zealand Initiative, *Consultation on a rates target model for New Zealand*, 3 December 2025, Appendix A.

<sup>22</sup> Ibid., Appendix A, footnote 1.

<sup>23</sup> Department of Internal Affairs, Regulatory Impact Statement Quality Assurance Panel assessment, as reported in DIA RIS, [https://www.dia.govt.nz/diawebsite.nsf/Files/Proactive-Releases-2025-26/\\$file/Rates-capping-RIS-December-2025.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Proactive-Releases-2025-26/$file/Rates-capping-RIS-December-2025.pdf)

- 4.16 To be clear: Cabinet is entitled to override official advice when it has good reason to do so, and the Initiative has often supported ministers who have done exactly that. But in this case, we believe the officials' caution is well-founded. The evidence from Australian rate-capping, the structural problems with the proposed formula, and the lack of evaluation of democratic alternatives all support DIA's conclusion that it cannot recommend this policy. Proceeding despite these concerns requires a stronger justification than has been provided.

### **The Model is Credit Negative**

- 4.17 S&P Global Ratings lowered the institutional framework assessment for New Zealand local governments in February 2025 and has warned that a strict cap could lead to further credit downgrades.<sup>24</sup> In December 2025, S&P stated that “unless the cap is matched over time with cuts to spending growth, we believe this will be a credit negative for the sector”.<sup>25</sup>
- 4.18 The RIS warned that under a rates cap with exclusions “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”.<sup>26</sup>
- 4.19 In relation to the more flexible rates targeting option, the RIS said “Initial conversations with credit rating agencies have noted the design of this option is not expected to significantly impact on local authority credit ratings and therefore the cost of debt. However, this relies on a clear process for spending above the target range in some circumstances.”
- 4.20 However, they may not now be so relaxed. On 4 February 2026 it was reported that “The world’s two biggest credit rating agencies have both put big New Zealand councils on notice: they say the Government’s proposed rates cap could impact on the local authorities’ finances and drive up their interest rates”.<sup>27</sup>
- 4.21 Lower credit ratings mean higher borrowing costs. Since interest is a major cost driver for councils, increasing the cost of debt worsens the underlying fiscal position, not improves it. This creates a perverse dynamic: a policy intended to improve council finances may actually worsen them.

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<sup>24</sup> S&P Global Ratings lowered institutional framework assessment for New Zealand local governments on 24 February 2025. See NZ Herald, *S&P Global Ratings cuts 18 councils' credit ratings*, 18 March 2025, <https://www.nzherald.co.nz/business/economy/sp-global-ratings-cuts-18-councils-credit-ratings-will-their-borrowing-costs-rise/EILZ62OV4VCEVHEXTMYHY6BTAE/>

<sup>25</sup> S&P Global Ratings, *New Zealand Local Government Brief: Rates Cap Tightens the Financial Screws*, 2 December 2025. See Interest.co.nz, <https://www.interest.co.nz/public-policy/136439/government-proposes-rates-cap-councils-may-be-forced-take-more-debt-if-they->

<sup>26</sup> Department of Internal Affairs, Regulatory Impact Statement, Op cit.

<sup>27</sup> Jonathan Milne, *Global credit agencies warn against council rates cap*, Newsroom, 4 February 2026, <https://newsroom.co.nz/2026/02/04/global-credit-agencies-warn-against-council-rates-cap/>

## Centralisation Weakens Accountability

- 4.22 The model shifts a core element of local fiscal policy from councils and their voters to a Wellington-based formula and regulator. This is the opposite of local accountability.
- 4.23 Under the proposed system, central government claims credit for ‘protecting ratepayers’, councils take the blame when services deteriorate or infrastructure fails, yet councillors have limited control over the revenue side of the ledger.
- 4.24 A council that wishes, with clear community support, to invest more heavily in infrastructure and accept higher rates must seek permission from a Wellington regulator rather than from its own ratepayers. How is this democratic accountability? How does this respect the principle that communities should decide for themselves what services they want and what they are willing to pay for?
- 4.25 The Initiative has long argued that New Zealand’s local government suffers from a ‘democratic void’ where accountability is blurred between elected representatives, council officials, and central government. The rates cap deepens this void by adding another layer of central control while leaving the underlying governance problems untouched.

## 5. AN ALTERNATIVE APPROACH

- 5.1 If the problem is excessive spending on discretionary projects while core infrastructure is neglected, the solution should address spending, not revenue. If the concern is accountability, the solution should strengthen democratic oversight, not replace local choices with central control.
- 5.2 The Local Government (System Improvements) Amendment Bill takes steps in the right direction by clarifying core services and strengthening reporting requirements. These provisions should be the foundation for fiscal discipline – not a supplement to rate caps, but an alternative to them.
- 5.3 The most effective check on spending is not a central formula but better democratic accountability. In *Making Local Government Work*, the Initiative proposed addressing the ‘democratic void’ in local government by giving mayors stronger powers and more resources to advance their mandates.<sup>28</sup> We have also proposed enabling councillors to scrutinise their councils more effectively and hold them to account.<sup>29</sup>
- 5.4 The Initiative and the Local Government Business Forum have also advocated for spending referendums – binding votes on major projects that exceed defined thresholds. The Forum’s report *Local Government Spending Referendums* (August 2025) sets out a

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<sup>28</sup> The New Zealand Initiative, *Making Local Government Work*, December 2024, op cit.

<sup>29</sup> For example, *Making Local Government Work*, op cit.; *Smart Support for Councillors: AI Tools for Local Leaders*, June 2025, <https://www.nzinitiative.org.nz/reports-and-media/reports/smart-support-for-councillors-ai-tools-for-local-leaders/>; *Submission on the Local Government (Systems Improvements) Amendment Bill*, August 2025, op cit.; *Submission on Draft Standardised Code of Conduct for Local Authorities*, September 2025, <https://www.nzinitiative.org.nz/reports-and-media/submissions/submission-draft-standardised-code-of-conduct-for-local-authorities/>.

detailed proposal.<sup>30</sup> It recommends requiring councils to hold binding referendums for significant projects exceeding \$500 per ratepayer or 5 percent of annual operating expenditure.

- 5.5 Importantly, the proposal distinguishes between essential network infrastructure (set in legislation, potentially aligned with the core services framework being developed through the Local Government (Systems Improvements) Amendment Bill) and discretionary projects. Referendums would only apply to non-essential projects, preserving councils' ability to invest in core services. Automatic referendum triggers would ensure thresholds reflect the size of councils.
- 5.6 The Forum's proposal includes turnout thresholds and potentially a supermajority requirement. The referendum would simultaneously authorise the project and any levies necessary to fund it. If ratepayers vote yes, the decision is democratically legitimate. If they vote no, the project does not proceed. Either way, the decision rests with those who pay. There is precedent for such an approach. Under the Local Bodies Loans Act 1913, and its successors, local authorities could borrow for specific projects by obtaining ratepayer approval through a poll.<sup>31</sup>
- 5.7 The Forum's report also outlines a *Ratepayer Bill of Rights* framework. This framework, which was promoted by ACT MP Rodney Hide in the 2000s, could accommodate a rates cap that is exceeded when ratepayers approve spending through a referendum. If the Government is determined to proceed with some form of rates constraint, linking it to a referendum mechanism would preserve democratic choice: a council could exceed the cap, but only with the explicit endorsement of ratepayers in a binding vote. This would address the Government's concern about runaway spending while respecting the principle that communities should decide for themselves what they are willing to pay for..
- 5.8 As mentioned earlier in this submission, South Australia took a different approach from NSW and Victoria, focusing on transparency and accountability rather than central control.<sup>32</sup> South Australia requires councils to publish detailed financial and performance information in standardised formats, allowing ratepayers to compare their council's performance against others. Today, South Australia has one of the better performing economies in Australia, which LGNZ has claimed is due at least in part to sustained investment in local economies by councils.<sup>33</sup>
- 5.9 We submit that funding tool reform should precede, not follow, any revenue constraint. New Zealand councils rely on property rates to an extent unusual among developed countries. They lack access to many funding tools that provide fiscal flexibility elsewhere. The Productivity Commission's report on local government funding and financing

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<sup>30</sup> Local Government Business Forum, *Local Government Spending Referendums*, August 2025, <https://www.localgovtforum.org.nz/documents-reports/local-government-spending-referendums-august-2025/>

<sup>31</sup> The New Zealand Initiative, *Funding the Future: The Case for Special Purpose Bonds*, July 2023, <https://www.nzinitiative.org.nz/reports-and-media/reports/funding-the-future-the-case-for-special-purpose-bonds/>

<sup>32</sup> LGNZ, *Transparency and accountability over a rates cap*, citing LGA South Australia's collaboration with the State Government, <https://www.lgnz.co.nz/news/media-releases/transparency-and-accountability-over-a-rates-cap/>

<sup>33</sup> Sam Broughton, LGNZ President, as quoted in LGNZ, *Transparency and accountability over a rates cap*, Op cit.

documented this problem.<sup>34</sup> In particular, we believe councils need tools that allow their revenue to grow (or shrink) with economic activity, providing an incentive to embrace growth and development. A great example is a share of estimated GST revenue based on the estimated value of building consents issued by each council.

- 5.10 Constraining the major revenue tool councils have, without providing alternatives, does not solve the problem. Give councils the tools to fund their responsibilities and to be more growth friendly. Then ensure councils can be held accountable for how they use those tools.

## 6. RESPONSES TO CONSULTATION QUESTIONS

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

- 6.1 No. We do not agree with a centrally administered rates target and therefore do not agree with the proposed formula. Even setting aside our fundamental objection to rate caps, the proposed indicators are inappropriate: National GDP growth is inappropriate when regional growth rates vary widely; the CPI does not reflect council cost structures; the 0.3 percent productivity assumption lacks evidence; and the steady state assumption is counter-factual (i.e., we are not in a steady state).

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

- 6.2 We do not support a centrally administered rates target and therefore do not propose alternative indicators for one. If transparency metrics are desired – and we support transparency – then use the standardised reporting of council spending that is being put in place. Require councils to report rates increases against benchmarks for local government cost pressures (such as BERL’s Local Government Cost Index (LGCI)), median household income, and infrastructure condition. As recommended by the Productivity Commission in 2019<sup>35</sup>, we recommend that DIA work with the local government sector and other stakeholders to review the LGCI methodology to ensure it is fit for purpose as a benchmarking tool.
- 6.3 An alternative approach worth considering is a Ratepayer Bill of Rights framework that could allow a rates cap to be exceeded through a referendum mechanism, so preserving democratic choice.

### **Question 2a: Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards?**

- 6.4 No. There should be no set minimum. If councils have been well-managed, are not facing cost pressures, and can deliver efficiencies, they should not be prevented from delivering a below-2 percent rates increase. A minimum floor is arbitrary and counterproductive – it signals that 2 percent is an expected baseline rather than encouraging councils to do better where they can.

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<sup>34</sup> New Zealand Productivity Commission, *Local Government Funding and Financing*, Final Report, 2019, <https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/>

<sup>35</sup> Ibid.

### **Question 3: Does the maximum of the target account for council spending on core services?**

- 6.5 No. The 4 percent maximum is reverse engineered from recent nominal GDP growth (5.4 percent), minus population growth (1-1.5 percent) and an assumed productivity gain (0.3 percent). National GDP growth is inappropriate when regional growth rates vary widely, and in many regions fluctuate with movements in agricultural commodity prices. The documents also provide no evidence that the assumed 0.3 percent annual productivity gain will be achievable.
- 6.6 Importantly, the 4 percent maximum does not account for catch-up investment on infrastructure deficits, construction cost inflation (27-38 percent over three years for key asset classes), regulatory compliance costs, or costs from climate adaptation.
- 6.7 Only four of 78 councils are projected to have rates increases below 4 percent in 2025/26.<sup>36</sup> A 4 percent maximum is a constraint that will bind virtually every council immediately.

### **Question 4: What council spending will not be able to take place under this target range?**

- 6.8 Based on the Australian evidence and the structure of the proposed formula, the following spending is at risk:
- **Infrastructure renewal and maintenance.** This is the first casualty in rate-capped jurisdictions because the consequences are not immediately visible. NSW councils have accumulated billions in maintenance backlogs under rate-pegging.  
  
The Local Water Done Well reforms may somewhat mitigate the rates cap's impact on water infrastructure. Water services transferred to standalone council-controlled organisations will be subject to Commerce Commission economic regulation rather than rates constraints – their pricing will be set through a regulatory framework designed to ensure adequate investment. However, this does not resolve the problem for roading, community facilities, stormwater (where not bundled with water services), and other council infrastructure that remains rates funded.
  - **Catch-up investment.** Councils with historic deficits cannot close them within a 4 percent constraint without either decades of gradual progress or continuous variations, defeating the purpose of the cap.
  - **Co-funded projects.** Many infrastructure programmes require councils to raise a local share to access central government funding. If councils cannot increase rates to meet their share, they lose access to the programme and the leverage it provides.
  - **Community services.** When hard infrastructure is protected, cuts fall on 'softer' services – libraries, recreation, community programmes, arts and culture. Some will

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<sup>36</sup> Sam Sachdeva, *Simon says cap your rates – how will councils respond?*, Newsroom, 2 December 2025, <https://newsroom.co.nz/2025/12/02/simon-says-cap-your-rates-how-will-councils-respond/> (the four councils are Northland Regional Council, Waitomo District Council, Bay of Plenty Regional Council, and Whanganui District Council).

likely see this as a virtue of the policy, but this would be better determined democratically, including through referendums.

- **Growth-enabling investment.** Kāinga Ora and the Ministry of Housing and Urban Development have expressed concern that the cap will make it riskier for councils to invest in infrastructure that enables housing growth. This risk is particularly acute if the cap constrains special rating areas established to fund housing infrastructure. The Government's own Going for Housing Growth policy encourages councils to use targeted rates and levies in growth areas to fund the infrastructure required by those developments. If the rates cap applies to total rates revenue – including targeted rates in defined growth areas – it would directly undermine the Government's housing objectives. Any rates target model must explicitly exclude infrastructure levies in designated growth areas from its calculation, or the policy will work at cross-purposes with the Government's housing agenda.

#### **Question 5: Are changes to the target needed to account for variations between regions and councils?**

- 6.9 Yes, substantial changes would be needed – but those changes would be so extensive as to undermine the coherence of a national target. Regional variations include population dynamics, infrastructure age and condition, geographic and hazard exposure, tourism loads, and economic base. A uniform national band applied to such diverse circumstances will produce arbitrary and inequitable outcomes. These variations are better handled through local democratic choice, with transparency and benchmarking allowing ratepayers to judge whether their council's approach is appropriate for their circumstances.
- 6.10 We instead urge the Government to consider the alternative approach set out in section 5 of this submission:
- Addressing the growth of local government spending, including by encouraging the prioritisation of core activities over non-core activities;
  - Strengthening local democratic oversight and other accountability measures (including reporting and performance benchmarking); and
  - Mandating referendums for large spending projects and/or for large rates increases (consistent with the concept of a Ratepayers Bill of Rights).

## **7. CONCLUSION**

- 7.1 The Initiative shares the Government's concern about rates affordability. We do not defend councils that have raised rates excessively while neglecting core infrastructure. We agree that ratepayers deserve predictability, transparency, and accountability.
- 7.2 But the proposed rates target model addresses the wrong side of the problem. It constrains revenue rather than spending. It centralises decisions rather than strengthening local accountability. It applies a steady-state formula to a system that is nowhere near steady state. And it ignores the overwhelming evidence from Australia that rate-capping produces infrastructure backlogs, cost-shifting, and no demonstrable efficiency gains. DIA's own quality assurance panel found the RIS inadequate.

- 7.3 We urge the Government not to proceed with a binding national rates target. It should focus instead on the spending side through the System Improvements Bill's transparency and reporting requirements; introduce spending referendums for major projects and a Ratepayer Bill of Rights framework; commit to funding central government mandates; and progress reform of funding tools before constraining existing revenue sources.
- 7.4 This approach would address the legitimate concerns driving the rates cap proposal while avoiding its considerable risks. It would strengthen local democracy rather than replacing it with central control. And it would give councils the tools and accountability they need to address their infrastructure challenges rather than locking in underinvestment.

**ENDS**