# Submission

By

THE NEW ZEALAND INITIATIVE

To the

## Finance and Expenditure Select Committee

On the

# Local Government (Rates Capping) Amendment Bill

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## SUBMISSION ON THE LOCAL GOVERNMENT (RATES CAPPING) AMENDMENT BILL

## 1. INTRODUCTION AND RECOMMENDATIONS

1.1 The New Zealand Initiative (the Initiative) is a Wellington-based think tank supported primarily by chief executives of major New Zealand businesses. In combination, our members employ more than 100,000 people. We conduct research and advocate for public policy that contributes to a more prosperous, free, and fair New Zealand.

1.2 This submission responds to the Local Government (Rates Capping) Amendment Bill (the Bill). It builds on the Initiative's February 2026 submission to the Department of Internal Affairs (DIA) on the consultation that preceded the Bill. [1]

1.3 The Initiative recommends that the Bill not proceed. It misdiagnoses the problem, does not adequately justify the target range and imposes a floor that can require rates to rise. The Australian experience provides substantial grounds for concern. The Bill also weakens local accountability and poses economic and fiscal risks. Sections 2 to 7 address these concerns.

1.4 The Government should instead pursue the following approaches to fiscal discipline and funding reform, discussed in section 8:

- Monitor the impact of the Local Government (System Improvements) Amendment Act 2026 on council spending, service delivery and rates;
- Introduce standardised spending and performance reporting with meaningful benchmarking;
- Require binding ratepayer referendums for major discretionary spending projects and enable binding approval of targeted rates by those who would pay;
- Fund additional central government mandates and review existing requirements for unnecessary costs; and
- Broaden council funding tools, including shares of GST on new construction and minerals royalties, accommodation levies and the removal of unjustified rates exemptions on Crown land.

1.5 The Initiative wishes to appear before the Committee in support of this submission.

[1] The New Zealand Initiative, 'Submission on a rates target model for New Zealand', 4 February 2026. https://www.nzinitiative.org.nz/reports-and-media/submissions/submission-consultation-on-a-rates-target-model-for-new-zealand/document/912

## 2. THE BILL MISDIAGNOSES THE PROBLEM

2.1 Statistics New Zealand recorded annual increases in local authority rates and payments of 9.8 percent in September 2023, 12.2 percent in September 2024 and 8.8 percent in September 2025. Compounding those published figures gives a cumulative increase of approximately 34 percent. The annual increase slowed to 6.2 percent in September 2026 but remained well above overall consumer price inflation of 3.7 percent.[2]

2.2 These increases have been painful for ratepayers, and the public concern behind the Bill is legitimate. Councils can contribute to the problem through weak procurement, poor prioritisation and delayed maintenance. The Initiative does not defend those failings. But the Bill does not adequately address other causes of rates pressure, many of which councils cannot control.

2.3 Councils face substantial infrastructure renewal needs following periods of underinvestment, alongside sharply increased construction costs. Insurance and debt-servicing costs have also added pressure. Central government has added or changed responsibilities for water services, resource management and building regulation. This Bill excludes water services revenue from its cap, but the wider history of cost pressures matters when assessing recent rate increases. Councils' non-water responsibilities also require reliable funding.[3]

2.4 A cap on the rates price does not distinguish a dollar spent on a vanity project from a dollar spent renewing a deteriorating local road. Where councils face genuine cost pressure, a revenue constraint does not remove it. It changes which spending proceeds, which is deferred and which costs must be recovered elsewhere. The Australian experience discussed in section 5 warns about those choices.

2.5 The consultation-stage Regulatory Impact Statement (RIS) did not meet quality-assurance standards. The assessment identified a mismatch between the evidence of cost pressures, the Minister's concern about fiscal indiscipline and the restricted options considered. The later regulatory design RIS, published in August 2026, includes supplementary analysis responding to that assessment. The earlier failure should therefore not be presented as the final word on the Government's analysis.[4]

2.6 The Committee should nevertheless require a convincing demonstration that this Bill will improve value for money and long-term financial sustainability compared

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2 Stats NZ, Annual inflation at 2.2 percent, 16 October 2024, https://www.stats.govt.nz/news/annual-inflation-at-2-2-percent/; Annual inflation at 3.7 percent in September 2026, 22 October 2026, https://www.stats.govt.nz/news/annual-inflation-at-3-7-percent-in-september-2026/. Cumulative increase calculated from the three rounded annual rates. These CPI figures are not the Bill's non-water rates-price measure.

3 Department of Internal Affairs, Regulatory Impact Statement: Rates Target Range Model regulatory design, published 25 August 2026, paragraphs 24–28. https://www.mcert.govt.nz/publications/regulatory-impact-statement-for-the-rates-target-range-model-regulatory-design/

4 Ibid., paragraphs 4, 229 and 249–250. The later statement explicitly addresses supplementary analysis following the earlier quality-assurance assessment.

with strengthening spending scrutiny, local accountability and funding arrangements. Improving the design of a rates constraint does not, by itself, establish that imposing one is the best response.

## 3. THE TARGET RANGE IS NOT ADEQUATELY JUSTIFIED

3.1 The Government has retained a proposed range of 2 to 4 percent while changing its explanation. The consultation relied on inflation and nominal GDP growth, with adjustments for growth and assumed productivity. The regulatory impact statement based it on an assumed 'steady state' in which infrastructure deficits had been fixed. The Ministry for Cities, Environment, Regions and Transport (MCERT) now explains the initial range by referencing a midpoint of about 3 percent, based on a 15-year average of BERL's Local Government Cost Index.[5]

3.2 A historical average provides context but does not establish what an individual council needs during a period of infrastructure catch-up. Nor does it demonstrate the savings available through better procurement or service delivery. The Government should show why the proposed range would consistently provide required services efficiently and maintain assets, taking account of differences between councils.

3.3 Recent headline rates increases illustrate the scale of existing financial pressures. However, they do not directly measure compliance with this Bill. The rates price is an average per rating unit, excludes water services revenue, and accounts for growth in the rating base. It does not cap each property's rates bill. The framework also allows averaging over the first three years of a long-term plan, so an individual annual increase above 4 percent need not breach it. Those features must be recognised when assessing its effects.[6]

3.4 MCERT's guidance states that the initial 2 to 4 percent range applies through 2029/30, with full compliance required from 1 July 2029. A replacement range would be set by 1 July 2029 for application from 2030/31. The date an order is made must be distinguished from when its range applies to councils. Delegated legislation would determine future binding ranges rather than fixing them permanently in the Bill.[7]

3.5 Parliamentary confirmation of orders is a useful safeguard, which we support. However, new section 26C(3) allows the previous range to continue if the deadline for a replacement order is missed. The replacement may then be made between

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5 MCERT, Proposed rates cap: Technical questions and answers for local authorities, questions on setting the initial range and the previous consultation formula. https://www.mcert.govt.nz/our-work/local-government/local-government-policy/proposed-rates-capping-system/proposed-rates-cap-technical-questions-and-answers-for-local-authorities/

6 Ibid., questions on the rates price, growth, individual rating units and flexibility within the three-year planning period.

7 Ibid., implementation timetable and initial target range; Local Government (Rates Capping) Amendment Bill 340–1, new section 26D and Schedule 1, new Part 3, clauses 8–10. https://www.legislation.govt.nz/bill/government/2026/340/en/latest/highlights/

24 and 36 months after the original deadline. This risks prolonging a range calibrated to an earlier economic environment. Exemptions provide some flexibility but require councils to seek separate approval.[8]

## 4. THE FLOOR: A CAP THAT ORDERS RATES UP

4.1 The Bill does not only cap rates increases. It also sets a statutory floor. Under new section 26E, a council would need an exemption to depart from the target range, including its lower bound. The Type-2 regime expressly provides for applications to fall below that bound. New section 26P would require the regulator to consider appropriate depreciation funding and compliance with asset management plans. The objection concerns the binding lower limit over the applicable assessment period, not every individual annual increase below 2 percent.[9]

4.2 The direction power compounds this. New section 26Z applies to any decision that would not comply with the target range, including decisions below it. The regulator can direct an undershooting council to remake its rates decision. The statute would empower an official in Wellington to order an elected council to increase its rates.[10]

4.3 We recognise the objective of preventing councils from underfunding renewals to flatter their headline rates. But a minimum revenue increase is a crude proxy for asset stewardship. People can assess depreciation funding and compliance with asset management plans directly. A well-managed council delivering sustained 1 percent increases through genuine efficiency should not have to apply for permission to do so.

## 5. THE AUSTRALIAN EXPERIENCE PROVIDES A WARNING

5.1 The Initiative's February submission to DIA reviewed the experience of Australian rate-pegging. The evidence it cited included widespread use of special rate variations in New South Wales, maintenance shortfalls and infrastructure backlogs. Victoria has also experienced financial pressure under capping, while South Australia pursued transparency and benchmarking reforms without adopting the proposed cap. These experiences raise substantial concerns. They do not establish that capping alone caused every deficit or maintenance shortfall.[11]

5.2 The Bill includes exemption processes and averaging arrangements that provide more flexibility than a rigid annual ceiling. Those features are welcome, but do not

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8 Local Government (Rates Capping) Amendment Bill 340–1, new sections 26B–26C. https://www.legislation.govt.nz/bill/government/2026/340/en/latest/highlights/

9 Ibid., new sections 26E and 26P.

10 Ibid., new section 26Z.

11 The New Zealand Initiative, Submission on a rates target model for New Zealand, 4 February 2026 (Op cit.) section 4 and sources cited there.

resolve the underlying concern. Councils must still obtain central approval for otherwise legitimate departures from the range. A standing exemption regime also brings administrative costs and uncertainty. The Committee should assess whether the constraint's benefits justify those costs and the loss of local discretion.

5.3 The transition arrangements further restrict access to exemptions. Under clause 11 of new Part 3 of Schedule 1AA, a council may apply for a 2029/30 exemption only if the regulator first invites it. The capital works gate in clause 12 is limited to expenditure incurred or planned before commencement, measured against the long-term plan that began in July 2024, with decisions due by 29 June 2027, more than two years before the spending year. Councils with legitimate projects have no procedural right to put their case. The regulator exercises discretion over who may even ask, early on, with information it is only beginning to gather.[12]

## 6. CENTRALISATION WITHOUT ACCOUNTABILITY

6.1 The deepest defect in the Bill concerns democratic accountability. The Bill sets a 2 to 4 percent cap and provides two types of exemptions. 'Type-2' exemptions for future financial planning would be decided by the regulator; 'Type-1' exemptions for exceptional circumstances would be decided by the Minister. Community consultation does not give local voters the final say. A council seeking to invest in new or upgraded infrastructure or provide a higher level of service would need central approval, even with strong community support. Local support would only be evidence in an application, not authority to proceed.[13]

6.2 The Bill then weakens local accountability in detail. Under new section 26J(c), a council amending its long-term plan to reflect a Type-1 exemption would be excused from the special consultative procedure, reducing public consultation precisely where rates depart from the range. Under the new section 26D(2) and the amendment to section 258G of the Local Government Act, the Minister could switch off the target range entirely for a council run by an appointed Commission, while an elected council would have no equivalent exit, however strong its mandate. The Bill thus trusts central appointees but not elected members with democratic legitimacy. The Committee should ask why.[14]

6.3 Clause 15 makes the financial management duty in section 101 of the Local Government Act 2002, which requires councils to manage their revenues, expenses, assets, liabilities and investments prudently, subject to the duty to comply with the target range, so that wherever prudence and the cap conflict, the cap prevails by law. This is remarkable - a Bill promoted as a discipline on council finances subordinates the Act's prudence requirement to a nationally set rates formula.

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12 Local Government (Rates Capping) Amendment Bill 340–1 (Op cit.), Schedule 1, new Part 3, clauses 11–12.

13 Ibid., new sections 26H–26I and 26M–26N.

14 Ibid., new sections 26D and 26J, and clause 16 amending section 258G of the Local Government Act 2002.

6.4 The regulator's institutional position also deserves scrutiny. New section 5AA provides for a statutory officer appointed by the departmental chief executive who must be a departmental employee. If the Bill proceeds, it should expressly secure independence in individual regulatory decisions, require published reasons and provide a suitable merits-review mechanism for exemption decisions. Under new section 26ZB, the executive may prescribe prudent financial management standards by Order in Council on the Minister's recommendation. The Act should set out the central principles governing these decisions.[15]

6.5 There is a better model, and it is one the Government's own affordability objective supports. If the concern is that councils spend beyond what their communities will bear, let communities decide directly. A Ratepayers Bill of Rights referendum override, allowing a council to exceed the range for specified purposes with its ratepayers' binding approval, would discipline spending through the people who fund it rather than through an official.

6.6 The Initiative's February submission supported binding polls for major discretionary projects, drawing on the Local Government Business Forum's proposal. The same principle should apply to targeted rates sought and substantially funded by an identified class of ratepayers, such as business improvement districts, growth-area infrastructure schemes and community-initiated services. A properly constituted binding poll should enable those who will pay to approve the commitment, without a further rates-capping permission process.[16]

## 7. ECONOMIC AND FISCAL RISKS

7.1 Maintenance and renewals are vulnerable to a binding revenue constraint because the consequences of deferral can remain hidden for years. Voters notice a closed library more readily than a deteriorating road foundation. The Australian experience illustrates the risk, although it does not establish that capping is the sole cause of underinvestment. Section 26P's asset-management criteria address applications falling below the floor. Those criteria do not themselves provide continuing assurance about asset stewardship among councils operating within the range.

7.2 Creditworthiness is another concern. S&P Global Ratings lowered its institutional framework assessment for New Zealand local government in February 2025 and later warned that a cap that is not matched over time by reductions in spending growth would be credit negative. That is a conditional warning, not a prediction

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15 Ibid., new sections 5AA and 26ZB. The recommendations here concern express statutory safeguards and do not suggest that ordinary public-law controls cease to apply.

16 Local Government Business Forum, Local Government Spending Referendums, August 2025, https://www.localgovtforum.org.nz/documents-reports/local-government-spending-referendums-august-2025/; The New Zealand Initiative, February 2026 submission (Op cit.), paragraphs 5.4–5.6.

that every council will be downgraded. Nevertheless, any resulting increase in borrowing costs would worsen the financial pressures the Bill seeks to address.[17]

7.3 The cap also creates incentives to shift funding sources. Fees and charges fall outside the rates price, while borrowing and asset sales can finance expenditure without an immediate increase in rates. Efficient user charging and well-judged asset recycling can be desirable but should be assessed on their merits. A slower rates increase, accompanied by higher charges or a weaker balance sheet, is not necessarily a saving. If the Bill proceeds, the regulator's reports under section 26ZA should cover total revenue, fees and charges, debt, asset condition, renewals and service levels.

7.4 The exclusion of water services also creates an accounting boundary. Councils must allocate corporate overheads and shared expenditure between capped and uncapped activities. Without consistent allocation rules, economically similar councils could report different rates prices. If the Bill proceeds, it should require common accounting definitions and transparent allocation methods, with appropriate assurance over their application.

## 8. ALTERNATIVE APPROACHES TO FISCAL DISCIPLINE AND FUNDING REFORM

8.1 The Initiative's opposition to this Bill does not imply acceptance of existing council spending or rates increases. Councils must demonstrate that they deliver necessary services efficiently, maintain their assets, and make sound investment decisions. The Government should pursue reforms that strengthen those disciplines while giving councils appropriate tools to fund their responsibilities.

8.2 First, the Government should monitor and evaluate the effects of the Local Government (System Improvements) Amendment Act 2026, particularly the changes intended to sharpen councils' focus on core services and improve financial management and reporting. These measures should be given a reasonable opportunity to demonstrate their effects on spending, service delivery and rates. Any further intervention should respond to identified shortcomings and evidence of what works.[18]

8.3 Second, standardised spending and performance reporting should enable meaningful comparisons between councils. Ratepayers and elected members need accessible information about service costs, staffing expenditure, debt, asset condition and delivery against agreed commitments. Comparisons should account for differences in geography, population growth and service responsibilities. Common accounting definitions and consistent overhead

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17 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; see also the Initiative's February 2026 submission (Op cit.), paragraphs 4.17–4.21.

18 Local Government (System Improvements) Amendment Act 2026, https://www.legislation.govt.nz/act/public/2026/64/en/latest/.

allocation are essential. Low expenditure should not be presented as good performance when it reflects deteriorating assets or poorer services.[19]

8.4 Third, binding ratepayer referendums should be required for major discretionary spending projects above clearly defined thresholds. Before voting, ratepayers should receive a clear account of the project's expected benefits, alternatives, whole-of-life costs and implications for rates and debt. The rules should prevent councils from avoiding a referendum by splitting a project into smaller components. They should also distinguish discretionary commitments from essential renewals, statutory obligations and urgent emergency work.

8.5 An identified group of ratepayers should also be able to approve a targeted rate for infrastructure or services that principally benefit them, including business improvement districts and community-initiated protection works. The rules should identify who pays, who votes and the financial commitment. A properly constituted binding poll of those bearing the costs should let the proposal proceed without additional rates-capping approval from central government.

8.6 Fourth, central government should take responsibility for the costs of the obligations it imposes. New or expanded mandates should be assessed for their local costs, expected benefits and less costly alternatives. Where councils must deliver national policy objectives, central government should provide funding commensurate with those responsibilities. Councils should also review existing mandates for unnecessary prescription and disproportionate cost. Funding an inefficient requirement does not replace the need to improve it.

8.7 Fifth, councils need funding tools that better connect revenue with the activities generating costs and benefits. Sharing a portion of GST associated with new construction would strengthen local incentives to accommodate development. Sharing minerals royalties with affected councils would give host communities a direct fiscal benefit from extraction. Both arrangements should follow predictable rules and account for their implications for the Crown's finances.

8.8 Accommodation levies could help meet visitor-related infrastructure and service costs that would otherwise fall on local ratepayers. Their design should account for existing charges and how tourism's costs and benefits are distributed. The Government should also end unjustified rates exemptions for Crown land. Where Crown properties receive council services, the Crown should contribute on a comparable basis to other property owners.

8.9 Broader funding tools must be accompanied by scrutiny of total spending and the combined burden on those who pay. Councils should explain how additional revenue will fund infrastructure, accommodate growth or reduce pressure on ratepayers. This approach would make spending choices more transparent and

[19] The New Zealand Initiative, Submission on Draft Guidance on Regulations for Groups of Activities for Councils' Planning and Reporting, July 2026, https://www.nzinitiative.org.nz/reports-and-media/submissions/submission-draft-guidance-on-regulations-for-groups-of-activities-for-councils-planning-and-reporting/document/944

strengthen local accountability. The Initiative recommends pursuing it instead of the Bill.

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