4 February 2026

Rates Target Model for New Zealand
Department of Internal Affairs
**WELLINGTON**

By email: ratescapping@dia.govt.nz

Tēnā koutou

# Canterbury Mayoral Forum Submission: Rates target model for New Zealand

## Introduction

1. The Canterbury Mayoral Forum welcomes the opportunity to provide this submission on the rates target model for New Zealand.
2. The Canterbury Mayoral Forum comprises the mayors of the ten territorial authorities in Canterbury and the Chair of the Canterbury Regional Council, supported by our Chief Executives. The purpose of the Forum is to promote collaboration across the region and increase the effectiveness of local government in meeting the needs of Canterbury's communities.
3. All Canterbury councils actively participate in the Forum: the Kaikōura, Hurunui, Waimakariri, Selwyn, Ashburton, Timaru, Mackenzie, Waimate, and Waitaki District Councils, the Christchurch City Council, and the Canterbury Regional Council.
4. The following submission on the rates target model for New Zealand has been developed with input from across Canterbury councils and focusses on matters of general agreement, noting that some Canterbury councils will also be making individual submissions.

## General Comments

5. The Mayoral Forum recognises and is supportive of the Government's objectives to improve system performance, strengthen accountability, lift economic productivity, and deliver better long-term outcomes for communities. The Mayoral Forum acknowledges that aspects of the current system are under pressure and that change is required to address long-standing economic, environmental, and funding challenges.

6. The scale and pace of change across the reform programme will require careful management, and significant investment from communities and councils to transition to new statutory responsibilities. This submission should also be read alongside the Mayoral Forum's submissions on the broad suite of reforms currently under consultation; including the Planning Bill, Natural Environment Bill, Simplifying Local Government, and the Emergency Management Bill.
7. The Mayoral Forum is concerned about the impact of a rates cap policy being implemented at the same time as these other reforms. The transitional, compliance and cumulative costs of these reforms are substantial and must be funded or offset for a rates cap to be viable.
8. We acknowledge the Government is looking at many ways in which council rates can be reduced, and efficiency and accountability improved. We agree with this sentiment, and it is something each council scrutinises every three years in creating its Long-Term Plans, and yearly through its Annual Plan processes.
9. We note the Rates Target Model proposal is light on detail and include in this submission key concerns and suggestions for the Government to consider in the detailed design work ahead of Cabinet decisions.
10. We reject the notion that our councils have been fiscally irresponsible. As we stated in our submission on the Local Government (System Improvements) Amendment Bill, the biggest contributors to rising rates are the impact of inflation related to infrastructure and building activity, audit fees, and unfunded policy mandates issued to local councils by central government.
11. The Mayoral Forum supports a strong partnership between central and local government and appreciates opportunities to work proactively and collaboratively for the benefit of our communities and New Zealand. A more deliberate partnership can support greater understanding of the impacts on funding and delivery of services and reduce the challenges that come with the u-turning of each new government, and the subsequent funding requirements of implementing new policy.
12. The following highlights the key areas we believe need to be addressed.

## Key points

13. We appreciate the Government's intention is to implement a rates cap that helps alleviate household spending pressures, while acknowledging that some increase is required to maintain council service levels.
14. We have significant concerns with the proposed model and the limited analysis that accompanies it. We think the solution to the issue is to establish a funding model for activities provided by local government that can be sustained for generations.
15. A statutory rates cap is a significant and enduring intervention. International experience shows such caps are difficult to unwind and can have unintended, long-term consequences for asset condition, debt, and intergenerational equity. Any proposed model must consider unintended ramifications and provide sufficient flexibility to swiftly manage unforeseen circumstances.
16. Transitional funding and cumulative costs of the suite of local government reforms need to be considered. Funding these changes conflicts with, and distracts from, the intent of the Local Government (System Improvements) Bill to focus on core services.
17. The combined impacts of a rates cap, resource management changes, 'Simplifying Local Government' reforms, and the Local Government (System Improvements) Amendment Bill must be transparently evaluated and communicated.
18. A rates cap policy should be accompanied by other central government support measures, such as paying rates on government properties, and removing or refunding (in full or in part) GST on rates.

19. A rates cap based on an inflation measure must accurately reflect local government cost pressures. The Consumer Price Index is not a robust method for measuring council inflation. The Producer Price Index or Capital Goods Price Index should be included within the methodology.

20. Gross Domestic Product should not be used to measure demand for council services. Using local indicators would provide a more accurate and evidence-based way to assess growth demand for council services.

21. Local government has a mandate in the Local Government Act to achieve outcomes for the wider community and households. As an example, this is evidenced through the provision of public transport and flood protection works, where the benefit is not specific to households. As Local Government Minister Hon Simon Watts stated in his announcement of the rates cap proposal, it appears to focus on 'essential services like rubbish collection, council roads maintenance and the management of parks and libraries' which falls short of covering the vital regional functions.

22. A rates cap policy must be flexible enough to reflect local conditions (such as levels of growth, hazard exposure, age of assets, and debt levels), with transparent criteria for variations, and must work with the financial tools available to councils. Certain 'permitted activities' should be expedited separately to general variation applications, such as natural hazard events.

23. Councils manage long life assets and debt is a significant funding tool used by councils, to both fund and assist in attending to intergenerational equity. Capping revenue generation on councils will give rise to credit agencies reconsidering credit ratings. The fallout of this likely to be an increase in interest rates, which will need to be funded through council rates.

24. We suggest allowing councils to continue to fully fund depreciation through rates. This could be achieved through a carve-out from the rates cap policy. This would also recognise that a rates cap will reduce a council's debt headroom.

25. A rates cap must be based on the rates increase for existing ratepayers, not the nominal increase, to avoid disincentivising growth and undermining operational and capital requirements.

26. We have concerns as to how the proposal could impact jointly funded projects, such as transport, flood protection, and pest management. The proposed rates cap is likely to reduce councils' ability to co-invest at scale with central government. This could mean a risk of foregoing these core services, funding it at the expense of other services, or requiring the Government to increase its share.

27. We have concerns that the proposed model focuses on providing for local council core services and does not appropriately consider regional-scale functions, such as flood protection, public transport delivery, and biosecurity. Nor does is differentiate between:

    - city and district councils, which have single rating boundaries
    - regional councils, which span multiple territorial authority boundaries with widely varying property values, populations, and service use.

28. Appreciating the Simplifying Local Government proposal is also out for consultation, and we may find change in the structure of local government in Canterbury in the future, these real time implications for regional functions must be considered now.

29. It is noted in the consultation letter from the Department of Internal Affairs that the Government acknowledges that 'councils may not be able to deliver all services they currently provide, as they will need to prioritise core services.' We think there is a misconception of how much is 'left over' once core services are covered.

30. Introducing a rates cap will still leave councils with the challenge of funding core services. Trade-offs may need to be made in the provision of infrastructure, particularly as the deficit has not been addressed yet and the 'steady state,' as mentioned in the proposed rates target formula, not yet achieved. Councils may need to consider reduced service across some functions, and/or an increase in user pays in order to keep within the rates cap.

31. For households, it is possible any savings achieved with a rates cap may be offset with increased costs elsewhere, push essential maintenance, operations, and renewal of infrastructure to future generations, and put limits on the community provisions that they most value.

32. The overseas experience has demonstrated that there are considerable risks in implementing a rates cap policy, and it is important to fully understand these before implementation. The following discussion expands further on some of these key points.

## Impact of central government policy on local government

33. The Mayoral Forum is concerned about the impact of central government policies on local government, especially those that impact rates. Councils are increasingly being expected to deliver infrastructure and shoulder the responsibility for implementing the policy decisions of central government without effective funding or transitional support, directly shifting the cost to ratepayers – a point noted by the Productivity Commission in its local government funding and financing report.[1]

34. Councils are also required to meet the cost of the many regulatory functions we undertake, which are functions that councils do not have discretion over, while responding to significant changes to resource management, reorganisation of the sector, and other reforms directly impacting local government.

35. The Mayoral Forum is concerned about the impact of a rates cap policy being implemented at the same time the Government is requiring us to reconsider the form of local government through the 'Simplifying Local Government' reforms, adapt to the reforms outlined in the Local Government (System Improvements) Amendment Bill, and manage the significant changes to the resource management system. The transitional, compliance and cumulative costs of these reforms are substantial and must be funded or offset for a rates cap to be viable.

36. Our councils are required to meet these costs, which has an impact on finances and resources. Unfunded mandates combined with a rates cap are untenable. Moreover, when the government imposes unfunded mandates, it effectively absolves itself from exercising the fiscal restraint it is seeking to impose on councils.

37. We ask that the government considers the impact of any future policies that are unfunded and the impact that this will have on our councils. Implementing a rates cap policy while requiring councils to spend money on policies it has not planned for undermines the ability to be fiscally responsible. Regulatory Impact Statements should quantify the impact of policies on local government and rates, and central government should not introduce new unfunded costs to councils while simultaneously constraining council revenue.

38. Updating our plans and processes to meet the new resource management legislation is likely to drive costs to communities and ratepayers, as well as councils, over several years. Restructuring local government in Canterbury will additionally incur significant costs, as the Auckland experience of local government reform demonstrated. The government has signalled councils should absorb these costs, which is inconsistent with the objective to deliver core services and ease the ratepayer burden.

## Scope and timing

39. If a rates cap is introduced, it should apply to the rate increase for existing ratepayers, rather than a nominal rates increase. This approach properly accounts for population growth and the associated operational and capital requirements. A rates cap on the nominal rates increase risks disincentivising growth because increases in population could mean councils are required to increase operational and capital expenditure to match the growth but would not have a means of funding it (without further decreasing services for existing ratepayers).

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[1] https://www.treasury.govt.nz/sites/default/files/2024-05/pc-inq-lgff-final-report-local-government-funding-and-financing.pdf

40. The Government intends to align the implementation of the rates cap policy with the next Long-Term Plan (LTP) process. The advice we have received is that the rates cap legislation is planned to be enacted by December 2026, with the transition phase effective from 1 January 2027, and fully in effect by July 2029. This timing intersects with LTP development and audit in a way that creates uncertainty. Councils will be well-advanced in LTP discussions by the time the new legislation is enacted in December 2026. The proposed timing creates uncertainty about what the final legislation will consist of during the time councils are discussing the LTP.

41. It is also not clear how Audit NZ will audit our process, as we will be required to meet the audit requirements of the legislation that is in force at the time, but the new legislation may change the focus. We seek further consideration and clarification of the timing of the rates cap policy with the LTP process. Audit NZ protocols must be clear and stable throughout LTP preparation and legislation should not change requirements mid-process.

42. We recommend a concurrent review of the Rating Act and methodology to aid decision making during this process. While taxation as a percentage of Gross Domestic Product (GDP) has risen overtime, local government's share has stayed at around 2% of GDP. Such a review has been identified by numerous reports (notably the Shand[2] and Future of Local Government[3] reports) and needs to consider ways to share the tax take more appropriately across the country. For example, returning the GST paid on rates (essentially a tax on a tax) to councils would enable these funds to be reinvested in these communities instead of being used to subsidise projects outside of their areas, while also reducing the amounts required to be paid by ratepayers.

43. We do not support the application of the cap at an individual rate level. If a cap is to be applied, it should be applied at the aggregate level. The proposal states 'councils will have discretion to spend rates funding as they currently do,' so, provided councils are spending on core services, the 'unders and overs' should be secondary to application of the rates cap in its aggregate.

44. We support the allowance for depreciation. Depreciation expenses have increased rapidly in recent years, often cited as one of the major drivers in expenditure and based largely on movements in asset values. We understand that this factor alone may test the 4 percent upper limit of the target range based on movements in asset values over recent years. However, it is not clear how depreciation allowances are to be determined. The need for regular asset valuations and the audit requirements may require further consideration.

45. The overseas experience has demonstrated that there is a risk that a rates cap policy can cause asset decay and underinvestment in infrastructure because councils do not have enough funding to maintain assets and meet the pressures related to growth. Councils may risk having insufficient funding available to provide and maintain core services to levels expected by the community. Councils must have a range of effective funding and financing tools. A rates cap that does not reflect actual cost inflation will lead to deferred renewals, growing backlogs, and lower maintenance. These are costs that compound and fall on future ratepayers.

46. If a rates cap is to be implemented, we would expect the Government to have a robust national infrastructure plan with implementation that is appropriately timed and funded. If council funding is demanded elsewhere, it will fall on the Government to ensure infrastructure does not decline.

47. In Waitaha Canterbury, we have over 1,900 bridges that are nearing end-of-life, and some of which are at high risk in a natural disaster. If these are left to dilapidate, economic growth stagnates and communities could be cut off in cases of emergency.

48. Along with the significant number of bridges, we have 14,630km of local roads. Resilience of our transport infrastructure is critical to securing regional and national supply chains. Significant

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[2] Funding Local Government: The Report of the 2007 Independent Inquiry into Local Government Rating ('the Shand report')

[3] [Future for Local Government Review - dia.govt.nz]

investment in maintenance and renewals is needed, especially given chronic historic underfunding and the impacts from more frequent and intense weather events.

49. With transport funding already falling far short of what is required to maintain the network, a rates cap is unlikely to bridge the gap.

50. We have concerns of a rates cap on emergency management functions, noting that the proposed exclusions relate only to natural disaster events and not to business as usual. The Emergency Management Bill provides for the development of rules which may include prescribed standards, training requirements, qualifications, and additional reporting, all of which will require additional rates resourcing. The timing of the proposal to implement rates caps is likely to create significant tension with councils' abilities to comply with such rules as proposed in this Bill.

51. We recommend the Government provides clarity on the definitions as the detail is worked through, for example, the criteria to determine 'quality of infrastructure.'

## Proposed rates target formula

52. The inflation measure used is based on the Consumer Price Index (CPI), which is used to measure the average household consumer prices. This is not a robust method for measuring the impact of inflation on councils. Council spending is not the same as an average New Zealand household and most of the indicators that sit within the CPI measure are not relevant to councils and are not causing increases to rates. Councils do not purchase a "basket of goods," as the CPI expects. Vegetables, fruit, meat, drinks, cigarettes, and alcohol etc, are not the focus of council spending. Councils undertake activities like construction, laying pipes, repairing roads, building community facilities, maintaining assets, professional services, and servicing debt – categories poorly captured by CPI. The difference between CPI and council spending is acknowledged in analysis and research by economic advisors, such as BERL and Infometrics.

53. If the government wants to use inflation as a measure for rates, there are other ways this could be done that are more appropriate and are a better reflection of the realities of council spending.

54. The Mayoral Forum recommends adopting a local government inflation index. For example, the local government inflation index developed by BERL incorporates the Producer Price Index (PPI) in its calculations, with transparent publication and methodology. PPI measures inflation based on the price businesses pay for inputs and the price businesses receive for their outputs. Similarly, the Capital Goods Price Index (CGPI) measures price changes for capital assets purchased by producers. The CGPI measures the price changes for things such as land, buildings, roads, bridges, pipes, plant, and machinery. This is far more relevant than CPI to network infrastructure and building programmes. Both the PPI and the CGPI are indexes produced regularly by the government and should be included within the government's methodology if inflation is to be used as a measure to cap rates.

55. Research undertaken by Infometrics[4] shows the difference between using the CGPI compared to CPI, which is that the cost of civil construction was much higher than CPI. Across three years (2021-2023), CPI increased by 19%, but the cost of building bridges increased by 38%, the cost of building sewers increased by 30%, and the cost of roads and water supply increased by 27%. A rates cap tied to CPI will therefore lag actual costs and drive deferrals.

56. We need to be cognisant of the instability of the geopolitical environment that we operate in and the consequences this has on councils supply chain and purchasing options. We have recent experience of this through COVID, where the international disruptions significantly impacted prices for local government activities, particularly in the areas of infrastructure.

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[4] "Analysing increases in local government costs for Local Government New Zealand," published February 2024.

## Impact on debt, credit ratings, and joint funding

57. Councils manage long life assets and debt is a significant funding tool used by councils, to both fund and assist in attending to intergenerational equity.

58. A rates cap in this target range could have a negative impact on councils' abilities to access and repay debt, which could risk funding for core services. Revenue impacts a council's ability to access and service debt. Rates are generally considered a stable and key source of revenue for councils, with an ability to be adjusted if required. A rates cap will limit both the revenue available to councils and the ability for councils to adjust rates, which reduces available debt headroom and could impact credit ratings.

59. The risk of a credit downgrade has been raised by S&P Global Ratings and in advice by The Treasury. If a council receives a credit downgrade, it will likely lead to an increase in interest rates when debt is renewed or new debt is acquired. This would have to be accounted for in a rates cap formula.

60. With a constriction of revenue, local government contribution to joint projects and implementation of future unfunded government mandates will become challenging. This in turn increases the risk of reduction in quality of service or pushing out maintenance and renewals on fixed assets.

## Conclusion

61. The Canterbury Mayoral Forum thanks you for the opportunity to comment on the Rates Target Model proposal.

62. We are happy to expand on any points covered in this submission. Please contact Amelia Wilkins at secretariat@canterburymayors.org.nz or on 027 243 4304.

Nāku iti noa, nā

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