Attachment I: Rates capping RIS

Department of Internal Affairs

Proactive release of Regulatory Impact Statement: Rates Capping
22 December 2025

The following documents have been proactively released:

Regulatory Impact Statement: Rates Capping

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Where information has been withheld for other reasons consistent with advice, it has been annotated with an asterisk. This information may in some cases be accessible under the Official Information Act 1982.

Key to Redaction Code:

- ***Section (9)(2)(f)(iv) – information withheld to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.***

Regulatory Impact Statement: Rates Capping

Decision sought	Agreement to the key design elements of a rates targeting model and the proposed consultation on how to set the range for the rates target.
Agency responsible	Department of Internal Affairs
Proposing Ministers	Minister of Local Government
Date finalised	5 November 2025

Summary: Problem definition and options

Problem definition

Property rates across New Zealand are increasing faster than they have in the past two decades. Significant and sharp rates increases in 2024 and 2025 have made it difficult for some ratepayers to plan their finances and reduces community support for how local authority budgets are set.

Executive Summary

In response to recent significant and sharp rates increases, Ministers have directed the Department of Internal Affairs (the Department or DIA) to develop a constraint on the ability of councils to adjust rates [EXP-25-MIN-0038].

While Ministers acknowledge there are cost pressures facing councils, they are also concerned that rates rises are being exacerbated by a lack of fiscal discipline amongst councils, including spending on activities that stray from core services, inefficient spending on the basics, and not taking advantage of the full range of funding and financing tools available. The Government expects local authorities to demonstrate that they are sticking to core business and carefully balancing the need for funding with rates affordability.

To address Ministers' concerns, the Government, through its 2025 Quarter Four (Q4) Action Plan, has committed to "take policy decisions to introduce rate caps." This policy is part of the broader commitments from the Government in relation to local government, to ensure local authorities are:

- focused on delivering core services well;
- accountable to local communities through better reporting; and
- ultimately trying to keep rates more affordable.

The Department acknowledges the range of cost pressures on local authorities that contribute to the recent significant and sharp rates increases, such as:

- addressing the infrastructure deficit,[1] including for high growth regions;
- adapting to climate change;
- carrying out new responsibilities assigned by Government, without new funding; and
- providing infrastructure to supporting growing number of visitors to regions.

[1] The gap between the country's current infrastructure stock and what is needed to meet present and future demands. Explained at para 20-21.

Our analysis is informed by several assumptions, such as:

- We are relying on the assessment of New Zealand's infrastructure deficit as assessed by the Infrastructure Commission.
- Councils have underspent on a range of infrastructure. We only have comprehensive data for the underspend on water services, which are not covered by this policy.
- On the evidence available, rates increases at a national level are driven by increased expenditure on infrastructure and cost pressures such as interest, inflation and insurance.
- A limitation on total rates revenue will reduce spending on areas outside of core services.
- A managed transition path can ensure baseline rates levels that are sufficient to maintain core service standards.
- The level of contribution from central government to support local authorities will be consistent with current policy settings.
- The extent of the problem, and the opportunity to mitigate it by constraining increases, is relatively uniform across all local authorities. A rates constraint mechanism can be designed to address regional variations, should there be greater differences between local authorities. Variation processes could be adapted for differences in councils starting position in regard to rates per rating unit, investment history and future need, and activities.

What is the policy objective?

The objective is to address recent significant and sharp rates increases by limiting rates increases, while:

- encouraging local authorities to **prioritise** and better manage spending on core services as defined in the Local Government (System Improvements) Amendment Bill (Amendment Bill);
- encouraging more use of alternative **funding and financing** tools where it is efficient and appropriate to do so; and
- enabling local authorities to continue to maintain **sufficient service standards**, by aligning provision of services with long-run measures of economic growth

DIA considered four options to address the policy problem:

- The status quo - Local authorities can raise rates within the constraint of public consultation.
- Option Two - A rates target within which local authorities can increase their rates. The rates target would apply to the price component of rates and have a minimum, midpoint, and maximum, expressed as a percentage increase for rates on a per capital basis. The target will apply to all sources of rates (general, targeted and uniform annual general charges) and all types of councils (regional, territorial and unitary).
- Option Three - A rates cap that sets a strict legal limit on the ability of local authorities to raise rates for some activities, but excludes some activities (for instance, the list of core services in the Amendment Bill) from the cap. It does not include a minimum rates increase.
- Option Four - A cap that applies to rates collected for expenditure on all local authority activities.

Non-regulatory options were explored, including issuing guidance to local authorities on better use of existing funding and financing tools, but the direction to deliver a constraint necessitated a regulatory approach.

Assessed against the criteria in this Regulatory Impact Assessment, the Department does not have a preferred option between the status quo and a rates target (Options One and Two). Both have equivalent net benefits and costs. Maximising the net benefit of either the status quo or the rates target is conditional on a range of detailed design questions.

Cabinet is being asked to agree to the rates target (Option Two).

What consultation has been undertaken?
Consultation has focused on a broad range of central government agencies. An Independent Reference Group of local government and financial sector experts provided policy advice on designing a rates constraint mechanism.
Targeted consultation will occur from November 2025 – February 2026 to test the model with a select list of stakeholders. Feedback from this consultation will feed into the detailed design of the model.

Costs

Costs of the rates target, as the Minister's preferred option, include the following costs to local authorities and communities. Some of the costs of this model are intended to be mitigated through policy and regulatory design.

- Local authorities will be limited in their ability to raise revenue from rates, which is likely to impact service delivery.
- Local authorities are likely to look at other funding and financing tools, for example fees and charges. Fee and charge funding is likely to move the cost-of-living pressure onto citizens who engage significantly with local services.
- Depending on how the target is calculated, it might not consider region-specific circumstances like population growth and infrastructure needs.
- Any limitation on local authorities' ability to raise revenue from rates could have a restrictive effect on infrastructure investment that is funded by rates.
- There will be ongoing costs for local authorities in engaging with the regulator once established.
- It has the potential to impact local authority debt and financing costs. Early indications are that negative impacts can be mitigated through a clear process for enabling spending above the target.

The rates target will have the following costs to the Crown:

- 9(2)(f)(iv) [redacted]
- Costs to central government agencies to quantify future requirements on local authorities.
- Potential increase in demand for Crown funding to cover services that local authorities are no longer able to deliver.

Benefits

Benefits of the rates target for local authorities include:

- Increased use of alternative funding and financing tools, less reliance of rates as a source of revenue.
- Anticipated prioritisation of expenditure to projects with the highest value.
- Regulatory oversight reviews of local authority spending are likely to find opportunities for improvements in service delivery.

- Rates target sets expectations that there will always be rates increases, meaning local authorities are likely to face less pressure to set zero percent rates increases.

Benefits to the regulator (Crown):

- Monitoring of council rates increases outside the target range can be an early warning system of financial sustainability issues.

Benefits to the community:

- A rates target will deliver a saving of $938 per rating unit (property) over seven years and is likely to provide some relief to cost-of-living pressures. As long-term plans change over time, and are unreliable outside of the initial 3 year period, there is uncertainty on the scale of rates increases in the future.
- Despite local authorities being able to set differentials, the rates target is still likely to smooth rates increases over time.
- Multiple property owners benefit most from a reduction in rates spending and the consequent capitalisation into higher house prices, with lower welfare for renters as a result.

Balance of benefits and costs

Depending on policy and regulatory design decisions, the benefits of the rates target will outweigh the costs. These decisions include:

- how the rate target range is calculated;
- the leniency with which variations around the target are permitted, and decisions on a clear process for these variations;
- how local authorities are expected to fulfil future statutory or other central government-imposed obligations;
- how interventionist a regulator is in enforcing the target; and
- the strictness of preliminary arrangements during a transition period.

Overall, there is likely to be a reduction in total overall rates take, with benefits of savings anticipated to flow to ratepayers, counteracted by higher fees and charges and lower service levels. The rates target will drive greater use of alternative funding and financing tools for local authorities, meaning less reliance on rates revenue. It will also mandate minimum rates increases set at a level that can ensure infrastructure maintenance.

Implementation

Cabinet will make decisions on the rates cap model in November 2025, which the Minister of Local Government intends to announce in December 2025. This will provide early direction to local authorities as they begin their 2027 long-term plans.

At the same time, DIA will undertake targeted consultation to test the model and inform further advice. 9(2)(f)(iv) [redacted]

The Minister of Local Government intends to pass legislation on a rates target by 1 July 2026. There will be a transition period, during which stakeholders will be able to adjust to the model, and a regulator set up, before the cap comes fully into effect.

Implementation risks related to Ministerial decisions include:

- Funding is required for regulatory oversight of the model. There is a risk that this is not provided in relevant Budgets.
- The transition period is necessary. If the model comes into full effect too soon, that will impact local authorities' ability to fund their current capital works programmes.
- A clear process for increasing above the target will be necessary for many councils, where levels of rates may be insufficient to deal with the scale of infrastructure deficits.

Limitations and Constraints on Analysis
Cabinet has limited the scope of analysis to a constraint on councils' ability to raise rates. In April 2025, the Government agreed to proceed with developing a rates cap for New Zealand [ECO-24-MIN-0157]. This followed public announcements that the Government would investigate a rates capping system. Therefore, other options to address all the reasons behind rates rises and increased cost pressures on councils could not be considered. There is limited information available on the range of council spending (reported in a way that is comparable between councils) which leads to the assumption that councils are not prioritising spending on core infrastructure over "nice-to-haves". This 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 on the impacts on the rates cap. Analysis on the exclusions-based cap had to focus on data that is uncertain in its quality. Public consultation has not taken place, so there is limited information on support for this policy, including on the trade-offs inherent between lower rates, higher charges for council services, and lower levels of service delivery. Due to the nature of how the policy programme has evolved and the time constraints we are under, there are some elements of the Minister's preferred option that have not been fully developed or costed and are subject to further work and consultation

I have read the Regulatory Impact Statement, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager signature:
Richard Ward
General Manager Local Government Policy,
Partnerships and Operations

Quality Assurance Statement	
Reviewing Agency: Department of Internal Affairs	**QA rating:** The panel considers that the information and analysis summarised in the regulatory impact statement (RIS) does not meet the quality assurance criteria.
Panel Comment: The RIS deals with a narrow range of options constrained by prior Cabinet decisions and Government announcements, in an extremely complex area (local government financial management). 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). Furthermore, the RIS has been prepared and Quality Assessed within a constrained and accelerated timeframe which has not allowed sufficient time to identify and address all issues required to produce a coherent final document. No public or stakeholder consultation on the problem definition, policy objectives or assessed options has been undertaken.	

The initial analysis in the RIS does focus on a credible problem statement relating to the impact of recent sudden and high increases in rates liability on ratepayers' ability to plan for and accommodate those costs. The document also identifies the range of pressures and circumstances that have necessitated these increases, and the resulting risks for any attempt to prohibit or regulate such increases. In this context, the RIS makes an adequate case for discounting options three and four in the analysis.

However, the body of the document, and especially the options analysis, fails to maintain a consistent focus on the identified problem and strays at times into discussion of limiting local authority expenditure decisions, rather than rates increases. That discussion also fails to provide a convincing picture of the relationship between rates, annual operating revenue, and the multi-year impacts of strategic capital expenditure and borrowing decisions.

More significantly, the assessment of the costs and benefits of both the status quo and the Minister's preferred option are acknowledged to be dependent on a number of fundamental assumptions. These relate to the impact of other legislative reforms currently before Parliament and, in the case of the preferred option, include assumptions about what can be achieved by future policy work to develop a proposal that is currently incomplete in design and operational detail. While the RIS concludes that there are equivalent costs and benefits between the status quo and the Minister's preferred option, the potential of either option to achieve the stated objectives and avoid identified risks is highly uncertain.

Given this uncertainty, the panel considers that the RIS does not contain sufficient information and analysis to allow Ministers to make a properly informed decision whether to proceed with the Minister's preferred option at this time.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

The amount of annual property rates increases has varied significantly over time

1. Changes in rates over the longer-term has varied over time, with periods of small increases punctuated by significant increases. The long-term average (from 1950) is rates increasing at the rate of GDP, tracking at 2% of GDP nationally.[2] However, there have been times where rates have increased sharply, and times where rates increases have been less than the long-term average. Rates increased annually by around 8% in the 2000s then slowed to around 5% for ten years, before accelerating to 10% in 2023 and 2024 (the largest in 20 years).[3] We are currently in a period of significant increase with median increases of 14.15% for the 2024/25 FY, and 9.2% for the 2025/26 FY.[4]

2. These recent significant and sharp rates increases in 2024 and 2025 have made it difficult for some ratepayers to plan their finances and reduces community support for how local budgets are set. Rates account for approximately 3.1% of the Consumers Price Index consumption basket, about what we spend on insurance, or petrol[5].

3. Property rates have increased faster than wages in the past two decades, contributing to increased cost pressures on households and businesses. While average annual rates increases between 2014-2024 have been as low as 3.5% and as high as 10.6%, annual wage increase has been around 4% and business total surplus before tax increased by a median of 6.4% over the same period.[6] In 2023 the growth in rates started to accelerate faster and wage growth slowed, expanding the gap between rates and wages.[7] The difference between rates growth and wage growth has been particularly pronounced over the past two years, where there has been negative GDP growth, and local authorities have increased rates significantly (median increases of 14.15% for the 2024/25 financial year, and 9.2% for the 2025/26 financial year), whilst incomes have not kept up.

[2] Review into the Future for Local Government (2023) He piki tūranga, he piki kōtuku, Wellington: New Zealand.

[3] Infometrics: Analysing increases in local government costs for Local Government New Zealand (February 2024) https://d1pepq1a2249p5.cloudfront.net/media/documents/Analysing_increases_in_local_government_costs_LI2BVKU.pdf

[4] Local Government New Zealand: 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/

[5] HYPERLINK "https://www.stats.govt.nz/information-releases/consumers-price-index-september-2025-quarter/"Consumers price index: September 2025 quarter | Stats NZ

[6] Stats NZ (2025) Local authority statistics, Available: https://infoshare.stats.govt.nz/ViewTable.aspx?pxID=b864f560-376c-45e1-8a72-47b98a6b3ca3View table - Infoshare - Statistics New Zealand

[7] Stats NZ (2025) Median Household income from all sources, Available: Aotearoa Data Explorer • Household income by region, household type, and source of household income

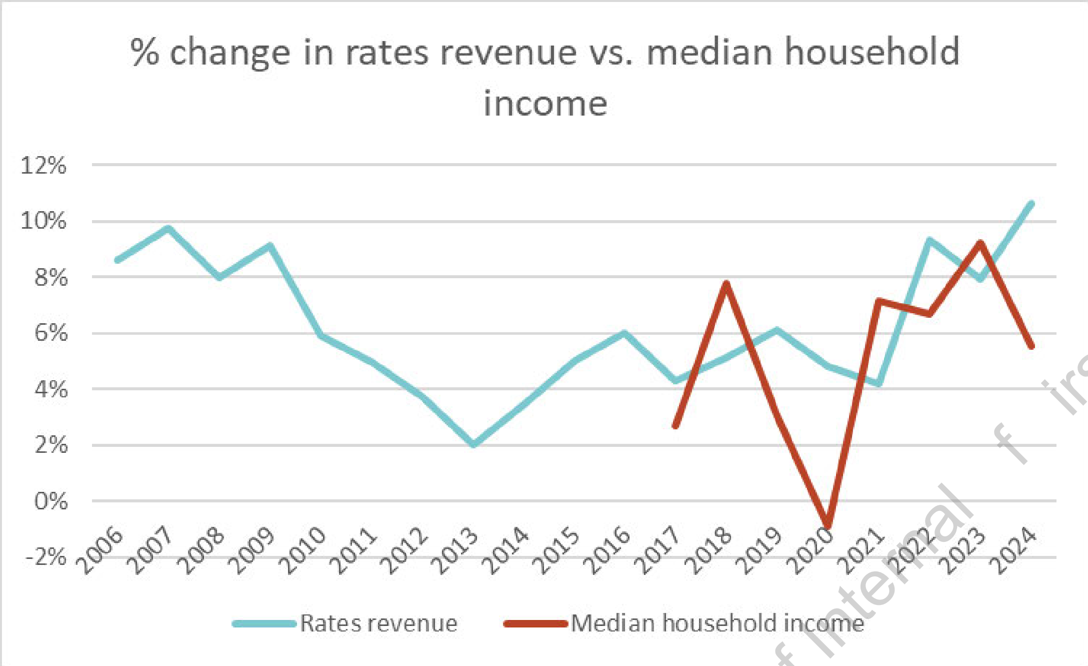

Figure 1: Comparison between change in rates revenue and median household income

4. While Ministers acknowledge there are cost pressures facing councils, they are also concerned that rates rises are being exacerbated by a lack of fiscal discipline amongst councils. In particular, spending on activities that stray from core services, inefficient and underspending on infrastructure, and not taking advantage of the full range of funding and financing tools available. The Government expects local authorities to demonstrate that they are sticking to core business and carefully balancing the need for funding with rates affordability.

5. To address Ministers' concerns regarding rates increases, the Government, through its 2025 Quarter Four (Q4) Action Plan, has committed to "take policy decisions to introduce rate caps."[8] This follows previous Action Plan points to take measures to "get local councils back to basics".[9] This policy is part of the broader commitments from the Government in relation to local government are:

   a. focused on delivering core services well;

   b. accountable to local communities through better reporting; and

   c. ultimately trying to keep rates more affordable.

6. This includes changes to the purpose of local government, and local government reporting, being made through the Local Government (System Improvements) Amendment Bill. Policy advice provided by the Department was that changes to the purpose of local government alone would not change the spending decisions of local authorities, and some other action would be needed to drive the type of prioritisation desired.[10]

[8] Action #9 "Take policy decisions to introduce rate caps." [Coalition Government's 2025 Q4 Action Plan for New Zealand].

[9] Final 2024 Action plan focused on infrastructure (30 September 2024) [Final 2024 Action Plan focused on infrastructure | Beehive.govt.nz]

[10] [RIS Refocusing the purpose of local government]

7. The Amendment Bill is currently before select committee, with the purpose of local government set out as follows:

    a. to enable democratic local decision-making and action by, and on behalf of, communities;

    b. to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses; and

    c. to support local economic growth and development by fulfilling the purpose set out in paragraph (b).

Local authorities have mandated financial management obligations

8. Local authorities are expected to balance spending responsibly and maintaining long term financial sustainability (prudence) while responding to the needs of their current communities, who hold councils accountable through the democratic process. These can conflict, where current expectations exceed willingness to pay. This has been a recognised conflict for local governments, with work to address this largely focusing on transparent reporting.

9. Under the Local Government Act 2002 (LGA), the Local Government (Rating) Act 2002 (Rating Act), and the Local Government (Financial Reporting and Prudence) Regulations 2014 local authorities must:

    a. manage their financial dealings prudently in a way that promotes the current and future interests of the community;

    b. maintain balanced budgets;

    c. publish a financial strategy that provides context to facilitate consideration of the impact of proposed expenditure on their services, rates, debts and investments;

    d. collect revenue that is sufficient to cover expenditure on activities outlined in their long-term plans; and

    e. publish standardised reporting on prudential spending benchmarks, including a balanced budget requirement, operational and debt control, and debt servicing.

10. The Government intends to pass the Local Government (System Improvements) Amendment Bill by the end of 2025 to help restore discipline, transparency and performance across the sector, to the benefit of ratepayers. The primary policy objective of the Local Government (System Improvements) Amendment Bill is to reduce pressure on *local authority* rates by:

    a. refocusing the purpose of local government;

    b. better measuring and publicising council performance;

    c. prioritising core services in council spending;

    d. strengthening council transparency and accountability; and

    e. providing regulatory relief to councils.

11. The intention of the regulatory system that empowers and regulates local government is to enable democratic local decision-making and action by, and on behalf of, communities. Democratic local decision-making is supported by requirements to

produce reports and long-term planning documents that set out the activities the local authority will carry out and how the activities will be funded and financed.

12. Local authorities are accountable to their communities through long-term plan consultation processes and at elections. The Office of the Auditor-General reviews local authority financial statements and performance information The Auditor-General is required by law to issue opinions on councils' long-term plans, as set out in sections 84(4) and 94 of the LGA. They are also required to form an opinion on the consultation document that councils issue before they finalise their long-term plans.

13. Local authority financial management has at times not performed according to legislative requirements to promote the current and future interests of the community. Local government political decisions have often focussed on keeping rates low, which has contributed to underinvestment in infrastructure. The Office of the Auditor-General notes that "councils are not replacing infrastructure at the same rate as it is being "run down", and many councils are not fully funding depreciation".[11] The consequence of this is ratepayers are not covering all of their costs and are passing costs to the next generation (in addition to debt). A 2024 survey of local government leaders raised that 80% considered ratepayer resistance to be a limiting factor on their ability to deliver necessary infrastructure. Previous generations have in effect pushed costs out to be dealt with by future generations, contributing to higher current rates increases, as councils are catching up on past underinvestment.

Local authorities receive most of their funding from rates

14. Under the Rating Act local authorities have flexible powers to set, assess, and collect rates to fund their activities. They must set rates in accordance with decisions that are made in a transparent and consultative manner, and provide information to enable ratepayers to identify and understand their liability for rates.[12] Local authorities can charge general rates, uniform annual general charges, and targeted rates. They can set general rates differentially, meaning they can differentiate how much they charge different categories of land. Local authorities set rates in accordance with their long-term plans and funding impact statements. The processes for these plans involve community consultation, allowing for communities to have a say on what their rates will be, and what services they want their local authorities to deliver. The Rating Act allows local authorities to set rates outside plans where there is an unforeseen and urgent need for revenue that cannot be met by other means.

15. The Rating Act replaced the Rating Powers Act 1988, which focused on prescriptive rules. The Rating Act allows greater flexibility for local authorities to be responsive to their communities.

16. Rates represent the largest source of income for local authorities, making up on average 57% of total operating revenue.[13] The reliance on rates varies across local authorities with rates making up 44% of Kaipara District Council's income and 66% of South Wairarapa District Council's income in 2024. Proportion of revenue from rates depends on the nature of services provided, other assets and investments including dividend streams, and local economic conditions.

17. Local authorities have the flexibility to set rates for all ratable land within its district. They may be set uniformly for all property, or differentially based on the land use, location and other factors (such as setting different rates for commercial property compared with

[11] OAG (2023) Insights in Local Government.
[12] Local Government (Rating) Act 2002, s 3.
[13] Statistics NZ (2025) Local authority financial statistics.

residential property). Local authorities may also set targeted rates for an activity or groups of activities. The land that is ratable for the targeted rate may be all ratable land, or one or more categories of ratable land.

18. Some local authority activities are mandated by legislation with a high-level of prescription for how the activity is done (some regulatory functions). Some are mandated by legislation with a high degree of discretion (e.g. local authorities are responsible for the service but timing and level of service are decided in consultation with communities through LTPs). Some activities are completely discretionary and decided in consultation with communities through LTPs (e.g. swimming pools).

Local authority expenditure impacts rates increases

19. For 2024, the median percentage of capital expenditure by local authorities on network infrastructure (being roading, wastewater, water, stormwater and flood protection) was 72.8% of total capital expenditure.[14] Other activities made up 27.2%. A greater share of operational expenditure is made up of other activities compared with network infrastructure.[15]

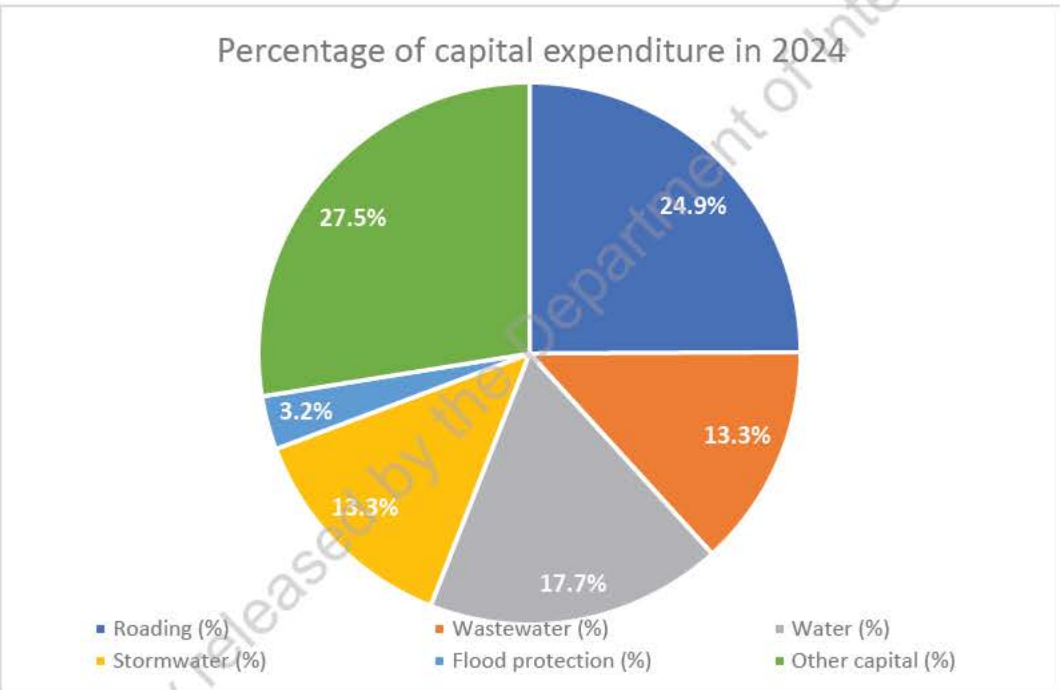

Figure 2: Percentage of local authority capital expenditure by activity in 2024

20. Expenditure on network infrastructure has fluctuated over time. Infrastructure investment occurs in cycles, with the last significant investment 'booms' in infrastructure in New Zealand from 1927 to 1940 and following the Second World War.[16] The useful life of network infrastructure like water services has typically been 60 to 100 years, suggesting

[14] Note that this fluctuates depending on the requirements of certain local authorities. For example, Taranaki Regional Council's capital expenditure on network infrastructure was 14.7% as it does not deliver roading or water services. On the other end, Tararua District Council's capital expenditure was 92.3% as it delivers a lot of roading.

[15] Department of Internal Affairs (2025) Council performance measurement, Available: local government performance metrics - dia.govt.nz.

[16] Infrastructure Commission (2025) Nation Building: A Century and a Half of Infrastructure Investment in New Zealand.

that it is currently time for it to be replaced.[17] The historical average investment in roading has been 1.2% of GDP. Since 1970 roading capital investment has been approximately equally shared between Government and local government. In 2022 the investment was just over 1.1% of GDP. [18] Periods of underinvestment have contributed to an infrastructure deficit.

21. The local government infrastructure deficit was conservatively estimated to be $26.4 billion in 2020 (12.4% of New Zealand's GDP in 2020). It is estimated to grow to $52 billion by 2051.[19]

Local government funding and financing is coming under increased pressure, contributing to rates increases

22. While independent reviews have found that radical reform to local government funding and financing is not required (that the rates-based system remains appropriate for New Zealand), they also acknowledge that local authorities are under significant funding pressure and need to lift their performance in managing these pressures.[20] The reports noted that this includes making better use of all existing funding tools, not just rates.

23. Funding and finance pressures are outlined in **Appendix A** and include:
    a. addressing the infrastructure deficit, including for high growth regions;
    b. adapting to climate change;
    c. carrying out new responsibilities assigned by government, without new funding;
    d. providing infrastructure to supporting growing number of visitors to regions;
    e. meeting ratepayers' expectations of higher levels of service; and
    f. Being subject to external economic factors like the cost of servicing debt, inflation, and insurance prices.

24. A consequence of local authorities' management of these funding pressures is a combination of seeking higher levels of rates revenue and not fully satisfying community expectations.

25. Local authorities will review their financial position when considering how to address the range of funding pressures. Some local authorities have relatively high debt/revenue ratios. Increasing debt to revenue ratios is contributing to a decline in credit quality. The consequences of a credit downgrade are higher interest payments. Martin Jenkins has found that local authorities' operating performance has deteriorated over time.

26. Several current central government reforms are aimed at addressing local authorities' funding pressures and will likely reduce some pressure on rates. The relevant Government reforms are outlined in **Appendix B**.

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[17] Miller (2012) Urban Water Services: Solutions, Problems and Options, Policy Quarterly, Volume 8, Issue 2.
[18] New Zealand Infrastructure Commission (2025) Nation Building: A century and a half of Infrastructure Investment in New Zealand.
[19] Sense Partners (2021) New Zealand's infrastructure challenge.
[20] Independent reports on local government funding include Local Government Rates Inquiry (2007) Report of the Local Government Rates Inquiry; New Zealand Productivity Commission (2019) Local Government Funding and Financing; and Review into the Future for Local Government (2023) He piki tūranga, he piki kōtuku, Wellington: New Zealand.

Impact on the status quo if no action is taken

27. Under the status quo, local government can raise rates freely with the main constraint being local democracy. Communities are not likely to support local authorities who implement significant rates increases continuously. Local authorities and communities will continue to face choices about whether they should increase investment to address the infrastructure deficit, and how quickly, and the extent to which this should fall on current or future ratepayers.

28. Local authorities are planning to significantly increase rates in the years 2026-2030 to increase investment in infrastructure, following commitments in 2024 long-term plans. In the years 2031-2034, we could expect rates increases to be more moderate when compared to the 2026-2030 years. Local authorities 2024-2034 long-term plans show that rates revenue will increase nationally on average by 10% in 2026, with the increase slowing to 4.5% by 2034. This is still higher than wages are expected to rise (expected wage increase for 2026 is 2.6% and 2.8% in 2027),[21] which will mean continued short- to medium-term pressure on ratepayers.

29. Long-term plan projections have tended to underestimate the level of subsequent investment as set out in figure 3.

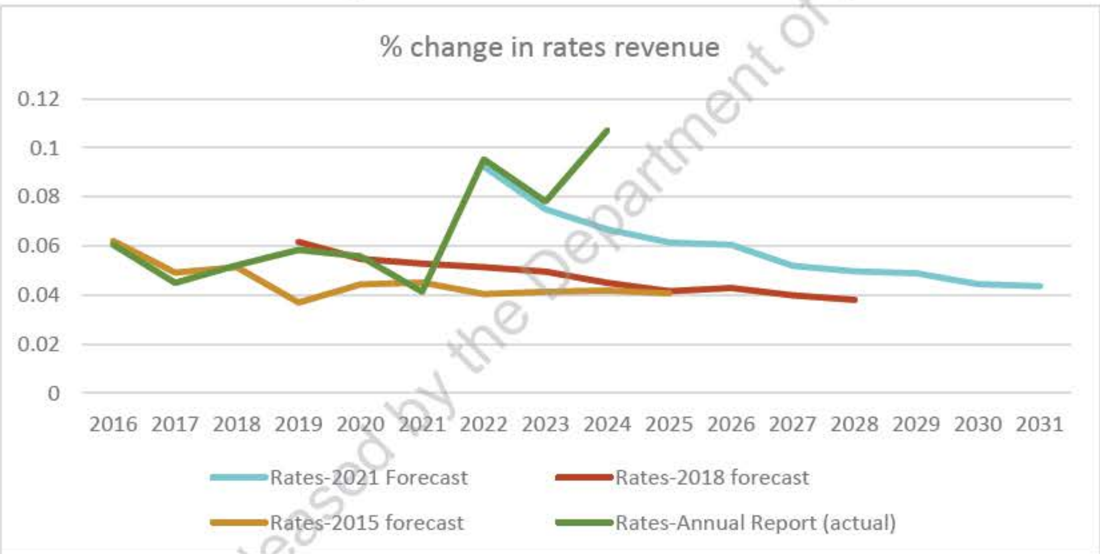

Figure 3: Comparison of subsequent long-term plan rates revenue forecasts and actual rates revenue collected.

30. Long-term plans are usually reliable forecasts for years one to three but are less reliable from years four to ten. The plans are revisited every three years and can be changed through annual plans as new councillors are elected. Actual rates revenue increases are likely to be higher than the forecast 4.5% in the second half of the long-term plans, influenced by the costs of infrastructure, servicing debt, and insurance.

What is the policy problem or opportunity?

31. Property rates across New Zealand are increasing faster than they have in the past two decades. Significant and sharp rates increases in 2024 and 2025 have made it difficult for ratepayers to plan their finances and reduces community support for how local budgets are set.

[21] RBNZ (2025) Survey of Expectations

32. In response to recent significant and sharp rates increases, Ministers have directed the Department to develop a constraint on the ability of councils to adjust rates.

33. While Ministers acknowledge there are cost pressures facing councils, they are also concerned that rates rises are being exacerbated by a lack of fiscal discipline amongst councils, including spending on activities that stray from core services, inefficient and underspending on infrastructure, and not taking advantage of the full range of funding and financing tools available. The Government expects local authorities to demonstrate that they are sticking to core business and carefully balancing the need for funding with rates affordability.

34. To address Ministers' concerns, the Government, through its 2025 Quarter Four (Q4) Action Plan, has committed to "take policy decisions to introduce rate caps." This policy is part of the broader commitments from the Government in relation to local government to ensure local authorities are:

    a. focused on delivering core services well:

    b. accountable to local communities through better reporting; and

    c. ultimately trying to keep rates more affordable.

35. On 1 April 2025, the Cabinet Expenditure and Regulatory Review Committee agreed [EXP-25-MIN-0038] to progress work on a rates capping system that is *"flexible enough to support our housing growth aspirations and allows us to respond to the infrastructure deficit, while limiting spending on nice-to-haves, with the following principles in mind"*, which are:

    a. **Independent** – Determined by an independent authority.

    b. **Transparent** – Simple for councils and their communities to understand.

    c. **Cost-reflective** – Accurately reflect cost changes for councils.

    d. **Localised** – Considers differences between councils across the country.

Our analysis is limited by several assumptions:

36. We are relying on the assessment of New Zealand's infrastructure deficit as assessed by the Infrastructure Commission.

37. Councils have underspent on a range of infrastructure. We only have comprehensive data for the underspend on water services, which are not covered by this policy.

38. On the evidence available, rates increases at a national level are driven by increased expenditure on infrastructure and cost pressures such as interest, inflation and insurance.

39. A limitation on total rates revenue will reduce spending on areas outside of core services (with forward accountability for insufficient infrastructure maintenance and renewal).

40. A managed transition path can ensure baseline rates levels that are sufficient to maintain core service standards.

41. The level of contribution from central government to support local authorities will be consistent with current policy settings, so a reduction in rates will lead to lower service levels.

42. The extent of the problem, and the opportunity to mitigate it by constraining increases, is relatively uniform across all local authorities. Rates levels, and range and level of services provided, vary significantly among all types of council (regional, unitary, and territorial), nature of district and geographical location. The impact of any option is therefore likely to

be highly variable as a result. A rates constraint mechanism can be designed to address regional variations, should there be greater differences between local authorities

What objectives are sought in relation to the policy problem?

43. The objective is to address recent significant and sharp rates increases by limiting rates increases, while:
    e. encouraging local authorities to **prioritise** and better manage spending on core services as defined in the Amendment Bill, to reduce the likelihood of future infrastructure deficits and related rates pressures;
    f. encouraging more use of alternative **funding and financing tools** where it is efficient and appropriate to do so, to relieve the pressure on rates; and
    g. enabling local authorities to continue to **maintain sufficient service** standards, by aligning provision of services with long-run measures of economic growth.

What consultation has been undertaken?

44. Government is aware of the rates peg model in New South Wales and has used this to inform policy design. In November 2024 officials from the Department engaged with a range of local authorities in New South Wales, as well as the Independent Pricing and Regulatory Tribunal (IPART). This helped us better understand the limitations and benefits of that model, and how it worked in practice.
45. Consultation has since focused on public sector agencies, with engagement at various stages of the policy process. Initial consultation with agencies was based on earlier versions of the policy, namely a rates cap with certain activities excluded. Discussion on this led to a change in policy direction as it became clear that this model:
    a. would be difficult to implement;
    b. would be unlikely to make an impact on rates bills, given only around 27% of capital expenditure would be covered by the cap; and
    c. could have unintended consequences.
46. The policy changed to a rates target model, applying to all expenditure funded by rates revenue except water services.
47. The Minister of Local Government appointed an Independent Reference Group to provide the Department insights, assurances, and verification of the rates capping design as it developed, as well as to provide the Minister with independent advice. The members of the group are: Lawrence Yule (Yule Alexander), Malcolm Alexander (Yule Alexander), Cameron Bagrie (Bagrie Economics), Matthew Walker (formerly Chief Financial Officer at Auckland Council), and Fiona Towers (Independent Pricing and Regulatory Tribunal, New South Wales).
48. No consultation has occurred on the problem definition or on the rates target option.
49. External consultation has not yet occurred, although we are aware of a range of views from the public and stakeholder groups, which include:
    a. Local Government New Zealand has publicly expressed opposition to a proposed rates cap, when work had been announced in 2024, with public statements in

2024,[22] submissions in opposition to a petition on limiting council rates to CPI,[23] and planned campaign in opposition of a rates cap in the 2025 AGM.[24]

b. The Public Service Association has opposed a rates cap, noting the existing struggles to maintain service levels.[25]

c. Public polling, in response to the question "Do you support or oppose the government putting a cap on the amount councils can increase rates each year?" found that 75% of respondents supported putting a limit in place.[26]

d. The Taxpayers' Union has run campaigns to Cap Rates Now, focused on limiting rates at the level of inflation, with referenda for spending above this limit.

e. Two former mayors have outlined the consequences of a rates cap.[27]

50. Targeted consultation is planned with consultation in late 2025 and early 2026 on how to set the rates target. This will outline a proposed approach for setting the minimum and maximum of the target, to be based in long-run economic indicators.

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[22] Rates capping may not be the answer - LGNZ
[23] Petition to limit local authority rate increases to a maximum of the annual in 1QJKMwd.pdf
[24] The case for capping local government rates is simple and urgent | The Post
[25] Capping rates will accelerate the privatisation of locally owned assets
[26] RNZ-Reid Research poll: 75% of voters support a rates cap | RNZ News
[27] Zero Rates Can Lead To Long Term Pain For Ratepayers - Former Mayors | Scoop News

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

51. Policy criteria will be used to compare proposed changes with the status quo:

    a. **Transparency** – the option is open to public scrutiny.

    b. **Subsidiarity** – taking decisions at the level of government best placed to do so, by virtue of being those most directly affected, by those best informed and best placed to deal with any consequences.

    c. **Effectiveness** – the extent to which the option achieves the policy objective of addressing recent significant and sharp rates increases by limiting rates increases, while:

        i. Encouraging local authorities to **prioritise** and better manage spending on core services as defined in the Amendment Bill, to reduce the likelihood of future infrastructure deficits and related rates pressures.
        ii. Encouraging more use of **alternative funding and financing** tools where it is efficient and appropriate to do so, to relieve the pressure on rates.
        iii. Enabling local authorities to continue **maintain sufficient service standards**, by aligning provision of services with long-run measures of economic growth.

    d. **Efficiency** – the extent to which the option can be implemented successfully, with minimum new costs for the Crown and local authorities in a reasonable timeframe.

52. The transparent and localised criteria are drawn from the principles that Cabinet established to guide policy design of a rates capping system [EXP-25-MIN-0038]. The other two principles (independent and cost-reflective) were not used as criteria to guide evaluation of policy options. This is because all the options have independent stewardship of the rates target formula and independent regulation, reflecting the actual costs of local authorities using a 'bottom-up' approach being too complex administratively.

What scope will options be considered within?

[Note: This section is intended to satisfy the requirements of a Supplementary Analysis Report, following the April 2025 Cabinet decision to progress policy work on designing a rates capping system.]

53. In August 2024, the Government announced that they will investigate options for revenue-capping to limit local authorities spending.[28] Further announcements include that they are investigating "rates pegging similar to New South Wales (NSW)",[29] and that the Government is "actively exploring a rates capping system".[30]

54. In April 2025, Cabinet confirmed the decision to proceed with a rates cap that is *flexible enough to support our housing growth aspirations and allows us to respond to the infrastructure deficit, while limiting spending on nice-to-have, with the following principles in mind:*

    i. Independent – Determined by an independent authority.

[28] Back to basics for local government | Beehive.govt.nz
[29] Government getting local government back to basics | Beehive.govt.nz
[30] Stronger accountability for your rates | Beehive.govt.nz

ii. *Transparent – Simple for councils and their communities to understand.*

iii. *Cost-reflective – Accurately reflect cost changes for councils.*

iv. *Localised – Considers differences between councils across the country.* [31]

55. The above principles were based on policy work developing along the lines of option 3 below – a rates cap with exclusions.

56. These decisions and announcements have limited the scope of options to things that could be considered a constraint on local authorities' ability to raise rates significantly.

Rates control in other jurisdictions

57. The Department considered models and lessons from other jurisdictions, specifically Australian states.

58. NSW has had a 'rate peg' since 1977, which limits the percentage by which local authorities can increase their total rates revenue. Initially rates revenue was limited by inflation, with recent reforms shifting to a more complex formula for how a local authority should be able to increase rates, adjusting for the different structure of costs over different local authorities. Recent reviews into the NSW system have raised concerns with the impact of the rates peg on the ability of local authorities to fund infrastructure.[32] As a result, NSW is planning a review of expenditure through a comprehensive spending review process, separate to their current processes for special variations for particular items of expenditure.

59. South Australia has a system where local authority performance is independently audited, with suggestions for improvements. Advice is published and local authorities must address the advice, whether they have adjusted their plans or not.

60. Victoria introduced a rates cap under the Fair Go Rates System, typically capping rates at the expected level of consumer price inflation.

61. Australian councils have a different mix of responsibilities and funding sources to local authorities in New Zealand, notably as councils in New Zealand have a more significant role in infrastructure provision. Throughout Australia, state and federal grants support revenue needs for councils, through the Financial Assistance Grant Programme.[33]

Government direction meant some options could not be considered

62. The initial options considered were all regulatory in nature, including placing limits on total local authority revenue, specific controls on local authority expenditure, or limiting just rates revenue.

63. Others that were not considered include:

    a. non-regulatory models like issuing of guidance;

    b. a model similar to South Australia with independent, rolling audits suggesting improvements; and

    c. enhanced use of existing Ministerial intervention powers under Part 10 of the LGA.

[31] Cabinet-Papers-Second-tranche-of-policy-decisions-for-LGSI.pdf

[32] Ability of local governments to fund infrastructure and services , Report, Government response - Inquiry into the ability of local governments to fund infrastructure and services.pdf

[33] "Financial Assistance Grant to Local Government | Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts

64. These are briefly summarised below. Alternative options for intervention are also covered in the 2010 Regulatory Impact Statement on Improving Local Government Transparency, Accountability and Financial Management.[34]

Guidance on reasonable future costs

65. Guidance would cover:

    a. what funding tool should be used for what local authority activity, particularly the extent to which costs should be recovered when accounting for public good functions;

    b. an evidence base of the alternative funding and financing tools that are available and how other local authorities use them; and

    c. improved estimates of the scale of the infrastructure deficit and needed future spending to address climate risks.

66. While some information exists and is public already, it is difficult to find and synthesise. Time is needed to build up a full understanding of these areas, but initial guidance could be based on evolving estimates and data and adjusted as reporting improves (including improvements from legislative requirements, such as those in the Amendment Bill).

67. Guidance is likely to be needed in some form with whatever option is chosen.

68. The Department has a complementary work programme on local authority performance measurement. This includes key local authority metrics that are routinely summarised and published in one place, with intended work to standardise local authority activity groups, allowing comparisons of actual spends across local authorities in reporting.

Rolling reviews with the need to respond with changes

69. A regulator would review local authority plans to ensure the level of spending is financially viable and provides suggestions for improvements that a local authority would have to respond to.

70. This review process already happens to an extent with the Office of the Auditor General reporting on thematic items in long-term plans and noting issues.[35]

71. Work by a regulator would complement this, if a regulator was empowered to make economic recommendations (for instance, on use of alternative funding and financing tools, to explicitly direct increases to meet maintenance requirements, with a requirement for local authorities to explain their response to suggested changes).

72. We consider that this could have much of the benefits of the preferred approach in the Cabinet paper without negative consequences or adding complexity to the statute book. It would still require cost in setting up a regulator, similar to the costs in the options described below. This is broadly the approach used in South Australia and the preferred option of Local Government New Zealand.

Use of Ministerial intervention powers

73. Under Part 10 of the LGA, the Minister of Local Government has access to a range of intervention powers, including requesting information, appointing a Crown review team or observer, and more interventionist powers, such as the appointment of Commissioners.

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[34] Improving Local Government Transparency - 29 April 2010 - Regulatory Impact Statement - Department of Internal Affairs.

[35] Local government: Results of the 2012/13 audits.

74. Historically, these powers have only been used in limited circumstances, informed by the fact that local authorities are primarily responsible to their communities, and intervention should be used in limited circumstances.[36]

75. Recent reports of the Crown Observer into the Wellington City Council noted that there was value in considering early intervention to support local authorities showing signs of stress.[37]

76. We consider that Ministerial powers alone would be a poor process – mostly for the fact that powers will always be somewhat political in nature. The intended process for how a Minster intervenes are set out clearly, but the choice to do so is always a political decision. While it is generally accepted that local authorities have not spent sufficiently on infrastructure in the past, intervening to force higher spending and higher rates even when it would be prudent to do so, is unlikely to be politically viable.

77. A stricter limit on the ability for a Minister to intervene may create the political room for local authorities to increase debt and have certainty of rates to fund infrastructure.

What options are being considered?

78. We have considered four options:

    a. Option One: Status quo

    b. Option Two: Rates target

    c. Option Three: Rates cap with exclusions

    d. Option Four: Rates cap on all spending

79. Each option applies to both territorial authorities and regional councils. While the services they provide are different, because we have unitary authorities, who will be captured, it would be too difficult to separate out particular services of regional councils and the equivalent functions in unitary authorities.

80. Options Two, Three and Four are all mechanisms to put a control on rates, in line with Ministerial direction to investigate a rates cap. There are similarities with these options.

81. Within each, there are choices around whether to allow variations. Each option described here includes variation or exemption processes, acknowledging that the absence of these processes would place too strict a constraint on local authorities being able to deliver the needs of their communities.

82. All three options also rely on regulatory oversight to various degrees. For Option Two (rates target), a regulator would review and set the target, providing an independent assessment to justify limiting local authorities' rates revenue, and impose a limitation if not warranted. For Option Three (a cap with exclusions), a regulator is needed to check compliance with the cap and approve variations. For Option Four (a cap on all spending), a regulator would be needed to determine variations. In all cases a regulator would monitor local authorities, issue guidance, determine variations or exemptions, and advise the Minister of Local Government. These functions require specific expertise in local authority funding and financing, which a regulator will be well placed to do. All options are agnostic as to who would be the regulator, which is the subject of further policy development.

[36] Notice Regarding Ministerial Powers of Local Government Assistance and Intervention - 2023-go2697- New Zealand Gazette
[37] Wellington-City-Council-Crown-Observer's-reports.pdf

83. A transition period is also required within each of the options. Policy thinking on this is well advanced for Option Two, but not Three and Four. As Option Three relies on reporting of spending on specific categories of activities, the transition period would need to allow for these rules to be in place.

84. Local authorities will continue to have discretion as to how to charge rates and what to spend rates revenue on. They would be able to apply differentials and charge different amounts for different categories of land under all three options.

85. The Government is currently undertaking reforms that impact the status quo, including water services for many local authorities moving from in-house to council-controlled organisations, resource management reform, shifting from development contributions to development levies. The Government is also changing the purpose of local government and implementing better reporting of local authority metrics through the Amendment Bill. Through the Amendment Bill, councils will be expected to have particular regard to the purpose of local government and the core services in their financial management approach. These changes would apply to all options listed below.

Option One – Status Quo

86. The status quo is largely explained above. Local authorities have the flexibility to set and charge rates within the limitations in the LGA and Rating Act. The primary check on this ability is public pressure. Councils are primarily accountable to their communities, through long-term plan consultation processes and at elections. However, there are limitations to consultation under the status quo, as plans are not necessarily designed to ensure broad engagement. Ultimately communities can alter their representatives through elections if they consider the level of rates to be unacceptable.

Option Two: Rates target

87. Under this model, local authorities would be able to increase their total rates within a percentage target range. The target would apply to all sources of rates revenue (uniform annual general charges, general rates, targeted rates), but not to other sources of revenue such as water charges or water-related targeted rates, development contributions or the growth portion of forthcoming development levies, and fees-funded local authority services, such as building consents and other user charges. It would apply to all local authority spending, except for water (which will be regulated by a different regime).

88. The target range would have a minimum, midpoint, and maximum, expressed as a percentage increase for rates on a per capita / per rating unit basis. The range would not be a total revenue target. It would represent the price component of local authority revenue growth. The target range would be determined by a formula anchored in long-run economic indicators, such as inflation, nominal GDP, population growth and productivity. How the target range is calculated, and what economic indicators are used are subject to consultation and further testing but are explained further at paragraph 100.

89. We expect that councils would mostly operate near the top of the target range, increasing rates alongside GDP growth. The minimum would be in place as a regulatory requirement, aimed at ensuring councils were sufficiently collecting rates to ensure that at the least, the infrastructure deficit will not get worse over time. The midpoint should represent a close approximation of council cost indexes.

90. The formula, and the economic indicators that are used to calculate it, are intended to be reviewed every few years to align with local authorities' planning cycles, adjust for new metrics, and to address any issues that have arisen.

91. Local authorities would retain the ability to apply differentials to general rates, adjust the basis for charging rates (e.g. switching from capital to land value or vice versa), and to determine where in the target they would operate.

92. There will be times where local authorities need to raise revenue above the rates target, so this option includes a process for variations. There are two approaches for managing variations:

   a. Situation 1 would apply to limited, extreme circumstances such as responding to natural hazards, global economic crisis, or other significant events as determined by Ministers. In these circumstances, variations would be allowed without local authorities needing to justify those variations. Local authorities will need to show how they will return to the target over an agreed timeframe.

   b. Situation 2 applies where councils need to raise revenue to pay for things outside of extreme circumstances. Where proposed rates rises outside the target are significant and sustained, councils would apply to a regulator for approval for a variation ahead of public consultation on their LTPs. They would then consult on the variation. As part of the process, councils would need to justify the variations to a regulator and explain how they intend to return to the target.[38] To justify the variations, councils will need to show they have met their financial management obligations under the Local Government Act 2002.[39] Overtime, it is intended that the number of variations would decrease as councils catch-up on underinvestment and the time outside the target would not normally exceed two years.

93. This model is the most flexible of the rates control models. The flexibility will be offset through increased information disclosure, transparency and accountability from local authorities, which is being enabled by the Amendment Bill. With the changes through the Amendment Bill, local authorities will report in a consistent way on spending on standard groups of activities (allowing comparisons of amount between local authorities, amount per person, proportion of rates spent on each local authority activity). In time, this could include factors like a benchmark proportion of spending on core services. While the target alone would not force local authorities to make trade-offs in line with the purpose of local government, the combination of transparent reporting and access to alternative funding tools will reinforce prudent financial management and strengthen community accountability.

94. There would be a transition period with preliminary arrangements. These are described in the implementation section at paragraph 139.

95. Subject to Cabinet approval, the Department will undertake targeted consultation on how to set the rates target. The proposed formula is expressed in figure 4, based on a per capita, price basis for a fixed basket of local authority services:

[38] Similarities are drawn to where there have been periods outside the policy target for inflation, and the RBNZ is required to explain why and how they will return to the policy target.

[39] This includes the new requirement in the *Local Government (System Improvements) Amendment Bill* that councils have particular regard to the purpose of local government and the core services of a local authority when determining its approach to financial management.

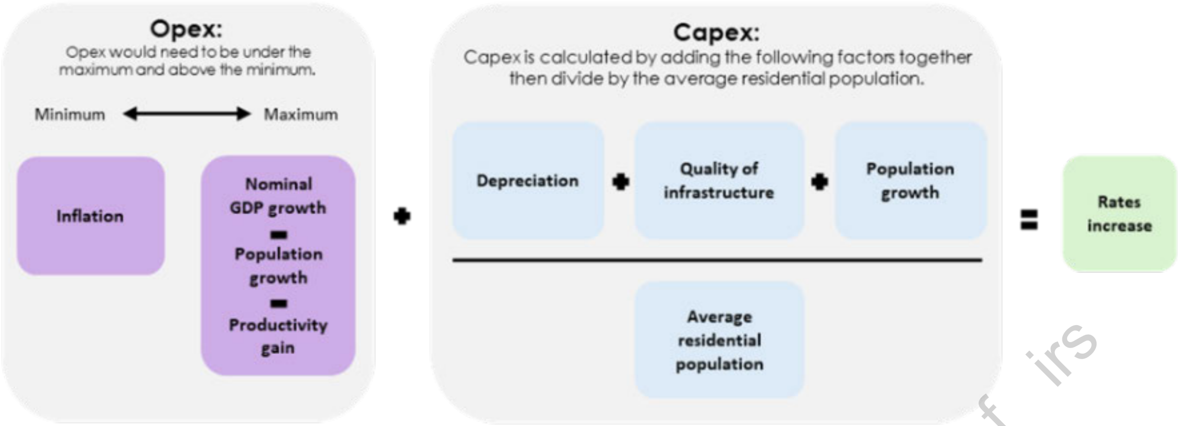

Figure 4: Proposed rates target formula

96. In a future ‘steady state’,[40] 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, these factors should apply for both capital and operational spending.

97. To allow comparison with a price index, local authority capital expenditure is based on a per person or per rating unit basis and should:
   i. be sufficient to replace worn out assets (depreciation);
   ii. respond to demand for more and improved infrastructure as income rises;
   iii. be in line with GDP (quality of infrastructure); and
   iv. increase as growth occurs, to cover the need to serve more people.

98. A regulator will need to work through the process of adjusting a target for the costs and rates of GDP growth levels in different councils, to be reflective of local circumstances.

99. Capital spending to replace worn out assets should be depreciation funded. Rates should cover the increase in standards as GDP increases, and the portion of growth costs that are not recovered from other tools (i.e. from development contributions or the forthcoming development levies regime). This should be in line with the target.

100. Preliminary analysis using this formula suggests that a 2-4% per capita target range for local authority rates is justifiable as a long-run guide and anchor to where rates increases should be.

   a. *Choice of minimum*: 2% represents the midpoint target range of the RBNZ policy target. The average rate of inflation has been 2.1% since 2002, excluding the Covid-19 inflationary pressure. The average has been 2.6% including Covid. Conceptually, this reflects that local authorities should be maintaining service standards.

   b. *Choice of maximum*: Local authority activity should align with national activity/growth, or GDP. Demand for local authority services should be

[40] A ‘steady state’ is a hypothetical about the optimal level of rates as a share of GDP. Historically, rates have been approximately 2% of GDP, with infrastructure issues emerging when councils varied below this trend. As some more councils shift to water charges, total rates as a percentage of GDP are likely to need to be lower, though 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.

reasonably in line with rises in GDP. Nominal GDP has increased at an average rate of 5.4% per annum. We analysed growth in population, household formation, and new dwellings (proxies for the rateable base for local authorities) which were around 1-1.5% per year on average. We also note that productivity growth has averaged to around 0.3% per year for the last decade.[41] Deducting prospective growth in the rateable base, and an allowance for productivity yields around 4% as a per capita/per rating unit increase.

101. Over the long term, most council costs fall within this range, with exceptions over short periods of time periods. For instance:[42]

a. The capital goods price index has averaged 2.50% since 1991 (earliest data), 2.97% since 2000, and 3.1% since 2010. It has increased at a rate of 5.89% per annum since 2021, though the rate of increase is moderating.[43]

b. The labour cost index for the local government sector has increased at a rate of approximately 2.5% since 2010 (earliest available data).

c. Assessments of total cost increases for local government (e.g, the BERL Local Government Cost index, or the Sapere Index created for the Productivity Commission review in Local Government Funding and Finance,[44] have also largely been within this range, as national averages.

102. If this formula was adopted and produced a rates target of 2%-4% per capita increases, we can see that a number of local authorities' non waters rates expenditure per capita would be outside the rates target for some or most of the next ten years (sample included as figure 5).

South Taranaki DC	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total rates-water rates ($'000)	30347	33502	35539	37328	38241	39287	40377	41418	42491	43567
%total rates -(excl) water rates	43.7%	42.8%	42.9%	42.7%	43.8%	44.6%	45.2%	45.7%	46.3%	46.8%
Forecast rating units	14420	14440	14460	14480	14500	14520	14540	14560	14580	14600
Total rates/RU (excl. water) ($)	2105	2320	2458	2578	2637	2706	2777	2845	2914	2984
% change from previous year		10%	6%	5%	2%	3%	3%	2%	2%	2%

Hutt CC	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total rates-water rates ($'000)	113927	126207	138325	153472	169104	192012	204452	222050	239521	258510
%total rates -(excl) water rates	38.0%	39.9%	41.9%	43.2%	44.8%	44.5%	45.2%	44.9%	44.9%	44.9%
Forecast rating units	43287	43764	44245	44732	45224	45721	46224	46733	47247	47766
Total rates/RU (excl. water) ($)	2632	2884	3126	3431	3739	4200	4423	4751	5070	5412
% change from previous year		10%	8%	10%	9%	12%	5%	7%	7%	7%

Tauranga CC	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total rates-water rates ($'000)	212500	242634	271181	293894	310318	346567	376335	415317	431624	455996
%total rates -(excl) water rates	36.2%	34.9%	35.0%	35.9%	38.6%	39.0%	38.1%	37.1%	39.2%	40.7%
Forecast rating units	62045	62976	63920	64879	65982	67104	68245	69405	70585	71784
Total rates/RU (excl. water) ($)	3425	3853	4243	4530	4703	5165	5514	5984	6115	6352
% change from previous year		12%	10%	7%	4%	10%	7%	9%	2%	4%

Figure 5: Examples of local authority projected rates increases, colour-coded for within or outside an example rates target.

103. A transition period is necessary so that local authorities can reconsider their budgets, possibly by delaying or reconsidering major capital projects (or, continuing, and working through the variation process), and to enable a regulatory regime to be established. Any

[41] For a full description of NZs Productivity history, see: Treasury paper: The productivity slowdown: implications for the Treasury's forecasts and projections - May 2024

[42] These index numbers, and the broad approach come from national level data. Implementation over time would need to adjust the process for costs / income growth in each council area or region

[43] The Capital Goods Price Index is available at: Business price indexes: June 2025 quarter | Stats NZ

[44] Analysis of local government cost drivers - Sapere

regulatory regime will need to align with existing processes such as reviews of LTPs by the Auditor-General.

Option Three: Rates cap with exclusions (following New South Wales model)

104. This option is a hard rates cap, based on a cost index, with exclusions for some spending and a strict legal limit on the ability of local authorities to raise rates revenue for other spending.

105. Increasing rates would be possible for “excluded activities”. The starting point for excluding activities would be those outlined as core services in the Amendment Bill.[45]

106. For other activities (“included activities”) local authorities would be limited in the percentage increase of rates funding for those activities.

107. This model relies on funds raised for excluded activities being ringfenced for use only on those activities. This will soon be the case for water services as in water services legislation water charges/rates can only be used to pay for those services. All local authority revenue and expenditure will need to be classified and labelled, which it currently is not outside the three waters, roads and flood protection. The changes being made in the Amendment Bill, for local authorities to report on groups of activities, will go some way to achieving this, but it will not be in as much detail as would be needed to ringfence revenue for specific expenditure on excluded activities.

108. Analysis of local authorities’ 2024 expenditure is that this rates cap would only apply to around 20% of overall local authority spending, as the rest is activities that would be excluded (noting these include more than just water services, roading and flood protection).[46]

109. As mentioned above, there would be a transition period to allow local authorities to adjust to the new labelling and reporting requirements.

110. There would be an exemption process to allow adjustments to the strict cap where communities require specific services. This could be based off the NSW special variation process, which involves a regulator granting a variation for between one and seven years. During the special variation time, the local authority can set rates within the agreed increase. To get a special variation in NSW, local authorities need to show there is:

    a. a demonstrated need for higher increases;

    b. community awareness of plans;

    c. a reasonable impact on ratepayers;

    d. a process to exhibit relevant local authority documents to the public; and

    e. a history of well-documented local authority productivity improvements and cost containment strategies.

111. These could be used in New Zealand, with some adjustments for our existing local authority consultation and planning requirements.

112. This would largely replicate the system in place in NSW, although New Zealand local authorities have a different mix of responsibilities than local authorities in NSW. In

[45] Network infrastructure, public transport services, waste management, civil defence emergency management, and libraries, museums, reserves, and other recreational facilities.
[46] This analysis is based on DIA categorization of local authority activities into ‘capped activities’, ‘excluded core activities’, and ‘mixed activities’, and includes capital and operating expenditure to support design of the rates cap with exclusions option.

addition, New Zealand local authorities are significant funders of infrastructure, and have different funding systems in place, notably with lower levels of funding from central government, and higher levels of debt.

113. Like with Option Two (rates target), a transition period would be required to allow councils to adjust their baseline rates, to allow time for new reporting requirements to be in place, and for a regulator to be established.

114. A regulator would be involved in determining the cap and deciding on exemptions. They would require a thorough knowledge of local government funding and financing.

Option 4: Rates cap on all spending

115. This involves a hard rates cap on all spending, without excluding activities. Like Option Three, there would be a strict legal limit on local authorities' ability to raise rates revenue.

116. Similar options have been proposed in the past, notably in the Local Government (Rating Act) Amendment Bill (2006), that would limit rates rises for all local authorities to a set limit, based on a point in time. Rates would likely be set at the maximum that the cap would allow for.

117. The cap would need to be set at an appropriate level. This could be the consumers price index (CPI), or the Local Government Cost Index. More complex caps would be possible, with the cap being set using a formula to develop an alternative price index, similar to that used in New South Wales. This would mean variations between local authorities is possible, using local population growth forecasts for example. Figure 6 outlines the New South Wales rate peg formula.

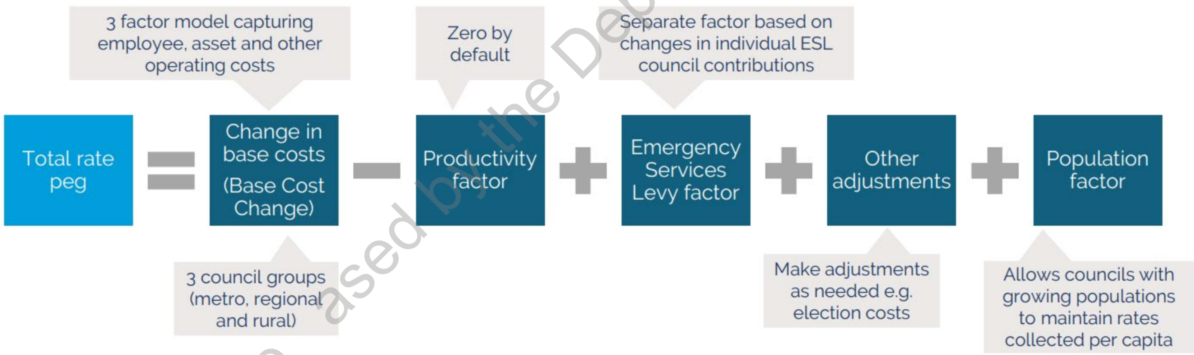

Figure 6: NSW rate peg calculation set by IPART

118. We have not gone into detailed analysis on what a formula or new price index could be for New Zealand.

119. With this model, like the others, there would need to be a transition period to allow local authorities to adjust to the cap and for a regulator to be set up.

120. There would be an exemption process, similar to that outlined in Option Three.

121. This option requires a regulator to be established to not only monitor councils and issue guidance, but to determine exemptions. Should a more complex cap be chosen and requiring a price index to be developed, the regulator would need to do that too. With a strict legal limit on rates increases, the regulator would be expected to undertake a strong enforcement role.

Options analysis

Option One – Status Quo	
Transparent	There are processes for oversight of local authority spending currently in place, with reporting by local authorities, audits of long-term planning and consultation requirements for local authorities generally, and local electorate accountability. Local authorities have transparency and accountability requirements under the Local Government Act 2002 and the Local Government Official Information and Meetings Act 1987 (LGOIMA). For example, they must publicise budgets and planning documents. In their long-term plans, local authorities publish a rates revenue forecast for the next ten years. Local authorities must also consult every three years on their long-term plans, providing an avenue for public scrutiny. However, long-term plan processes are complex, long, contain duplication and are often difficult to engage with. Suggested reforms to better achieve the purpose of transparency have been recommended in reviews of local government.[47] With the changes through the Amendment Bill, local authorities will report in a more consistent way on spending on standard groups of activities (allowing comparisons of amount between local authorities, amount per person, and proportion of rates spent on each local authority activity). Under the status quo, the impact of these changes would increase public pressure on council spending.
Subsidiarity	Local authorities are subject to legislation as set by Parliament. Central government currently can impose obligations on local authorities and expect them to fund this, without consideration of how the obligations will be funded, or how local contexts (such as population change) shapes decisions about changes to rates revenue. Local authorities do have the power of general competence, where they can make any decision that an ordinary person can, rather than being limited by powers explicitly granted in statute.[48] Local authorities make these decisions based on consultation with communities or in response to election promises, which achieves a degree of sensitivity to local circumstances. These decisions are limited by central government only by the purpose of local government, electoral accountability and financial management provisions in the LGA. These competing mandates mean local authorities must deliver on central government mandates, provide services to the community, and be responsive to the community's ability to fund these activities.
Effectiveness	*Limiting rates increases*

[47] He piki tūranga, he piki kōtuku – The future for local government; Productivity Commission, Local government funding and financing
[48] Local Government Act 2002, s 12.

As described in the context, rates increases are lumpy over time. Small rates increases have led to underinvestment in services, which leads to larger rates increases later to catch up on investment in services. Local authorities can freely raise rates (within the limits of local democracy) to respond to circumstances as they arise. They will continue to set annual rates revenues in accordance with the ten-year rates forecasts set out in their long-term plans, refreshing their plans in three-year cycles. Local authorities' 2024-2034 long-term plans show that total rates revenue will increase nationally on average by 10% in 2026, with the increase slowing to 4.5% by 2034. Annual rate increases will likely remain above GDP, construction inflation and wage increases, as local authorities face the realities of the historic infrastructure deficit and the need to make proactive investments in the future. 2025 local government election results may moderate local authority expenditure, although history tells us that long-term plans often predict lower rates increases from years four to ten, but these never arrive as long-term plans are reset every three years. We have a recurring pattern of larger increases in years one to three repeating.

Prioritisation

Around 72% of local authorities' capital expenditure is already on core services (drinking water, wastewater, storm water, roads, and flood protection), with this proportion increasing nationally in recent years. Over time local authorities have adjusted their spend on these services. Rates also fund other regulatory functions from central government. Data is currently limited on what councils spend outside of capital expenditure on the five listed core services.

Without a minimum rates increase like Option Two (rates target), councils are not required to increase rates at all. Facing political pressure, they could offer rate decreases or zero percent increases, which would mean they would not be able to cover infrastructure maintenance. This would increase the infrastructure deficit.

Alternative tools

Local authorities' income comes from a mix of sources, including rates, grants and subsidies, sales and other operating income, regulatory income and petrol tax, development and financial contributions, and interest and dividends. Rates represent the largest source of income for local authorities, making up on average 45% of total revenue.[49]

Maintain sufficient service standards

Under the LGA, local authorities are required to be prudent in their financial management, with no definition of "prudent". There are no current requirements for them to meet sufficient service standards by aligning the quantity and quality of service provision with long-run measures of economic growth.

Efficiency

No new actions are proposed under the status quo option. The administrative costs of setting local authority budgets and determining the portion that will be funded by rates would remain the same.

[49] Statistics NZ (2025) Local authority financial statistics.

	There are no incentives under the status quo to drive efficiency in local authority service delivery.
Option Two – Rates target	
Transparent	This model would enable greater oversight of local authority spending. The flexibility of the model (whereby local authorities have autonomy to set rates increases within a range) will be offset through increased transparency and accountability from local authorities, enabled through the Amendment Bill. With the changes through the Amendment Bill, local authorities will report in a consistent way on spending on standard groups of activities (allowing comparisons of amount between local authorities, amount per person, proportion of rates spent on each local authority activity). In time, this could include factors like a benchmark proportion of spending on core services. While the target alone would not force local authorities to make trade-offs in line with the purpose of local government, the combination of transparent reporting and access to alternative funding tools will reinforce prudent financial management and strengthen community accountability. The public would be able to more clearly see why rates are increasing (based on the formula) and be better informed when scrutinising their local authorities. Depending on forthcoming regulatory work, this could give greater assurance to the ratepayer base that councils had made reasonable levels of trade-offs prior to consulting on increasing rates above the level of income growth. This model could drive conversations between communities and local authorities on trade-offs of spending on certain activities.
Subsidiarity	A rates target adds a constraint on the growth of rates revenue for local authorities, but with mitigations and flexibility built-in. Local authorities will have autonomy to set rates increases within the target, subject to consultation with their communities. The range of the target is unlikely to be as wide as local authorities are operating in now and local authorities are unlikely to be able to deliver all the services that they currently do. Depending on how the target range is calculated, this option has the potential to be more responsive to local needs than other rates constraining mechanisms, especially if it considers local population growth and infrastructure needs. Subsequent detailed design decisions about the target range formula will determine the range, quantity, and quality of services that local authority funding can support. Variations will be permitted and would only have to be justified if they are significant and sustained. Variations will be justified if local authorities are otherwise meeting their financial management obligations under the LGA. Care is also needed in designing a regulatory function to ensure that a regulator does not interfere with decisions of local authorities beyond their scope.

	Councils will still face the competing mandates as described in the status quo. They will be required deliver on central government mandates, provide services to the community, and be responsive to the community's ability to fund these activities. The model will need to be designed to ensure central government cannot continue to place requirements on councils that are unfunded.
Effectiveness	*Limiting rates increases* The rates target is intended to stabilise annual rates increases to within the target range, reducing the financial pressure ratepayers experience when there is volatility from year-to-year in rates bills. Reducing the occurrence of significant and sharp rates increases could benefit future ratepayers. The bottom of the rates target ensures a minimum rates increase which encourages appropriate investment in services. Having a rates target minimum reduces the risk of underinvestment, followed by the need for larger rates increases at a later date to catch up on investment in services. *Prioritisation* The combination of the rates target and changes to the purpose of local government would place stronger emphasis on spending on core services first, with spending on "nice-to-haves" only if there is money left over. As local authorities retain autonomy within the target, there is still a possibility of them prioritising spending as they see fit, including on non-core services. However, along with the changes to the purpose of local government in the Amendment Bill, a rates target should encourage prioritisation and better management of spending on core services. The target will include a minimum increase, which will mean local authorities cannot opt for lesser increases without justification to the regulator. The minimum anchor could be calculated based on local authorities' costs for delivering core services. As this would be public information, it would encourage local authorities to prioritise spending on those core services first. However, a central government direction to limit spending could bias local authorities to the lower end of the target. This would impact local authorities' ability to pay for all the services that are needed for their communities, mean they are not addressing their infrastructure needs, or prevent them from setting themselves up to cover costs for things like responding to major events or climate adaptation. Rates are being used to fund much needed public infrastructure and are an efficient form of revenue collection. Estimates of public infrastructure are emerging, with councils operating high quality processes, built around thirty-year investment planning, and clear, community consultation processes that support best information of the scale of need. Any limitation on local authorities' ability to raise revenue from rates could have a chilling effect on infrastructure investment that is funded by rates, with local authorities potentially cancelling planned capital works projects in core services. *Alternative tools*

	With less rates revenue, local authorities will need to look at alternative funding and financing tools to pay for the services their communities want. It is likely that local authorities will move to greater use of tools like user fees and charges, debt (rates funded), and asset recycling. There are times when these will be sub-optimal tools, for example increasing fees and charges can reduce public access to facilities such as pools and libraries, which might not be in the best interests of the community. However, a shift to more user charges will mean relief to those who do not use those services, like rural communities. *Maintain sufficient service standards* As the target range calculation is based on long-run economic indicators, it supports local authorities to collect sufficient revenue to provide an amount and quality of services that aligns with the longer-term performance of the economy.
Efficiency	9(2)(f)(iv) [redacted] 9(2)(f)(iv) [redacted] 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. More detail on regulatory design will be the subject of a second regulatory impact statement, once decisions have been made on which rates cap model will be progressed. On average, rates per rating unit (excluding water rates) in New Zealand are forecast to total $27021 over the years 2027-2034.[50] Under a rates target of 2-4% per capita, annual increases would be moderated to 4 percent per capita. This equates to a total rates

[50] This is based on forecast rates revenue data and rating unit forecasts from twenty-eight local authorities that have produced 2024-2034 Long-Term Plans. The data above is sourced from and relates to only these twenty-eight local authorities and does not include rates data for the other fifty local authorities. The reasons for excluding fifty local authorities from the analysis are: Territorial authorities did not complete 2024-2024 long-term plans due to the North Island Severe Weather Events, meaning there is not rates forecast data for the ten-year period for these councils, Wellington City Council does not have rates data for 2025, meaning data for 2024-2034 period could not be used, Auckland Council is excluded due to its moderate rates forecast and because the size of Auckland will skew the national average rates data, and Regional councils were excluded due to avoid problems double counting rating units.

	bill for an average rating unit for the period from 2027-2034 of $26083. This indicates a saving of $938 per rating unit over seven years and is likely to provide some relief to cost-of-living pressures. This does not mean every ratepayer will have savings under a rates target, but it indicates that total rates collection will decrease. As long-term plans change over time and are unreliable outside of the initial 3-year period, there is uncertainty on the scale of rates increases in the future. The impact of the rates target can also be considered by looking at the savings in amount of rates collected by local authorities. Total rates (excluding rates for water services) collected for New Zealand for the twenty-eight local authorities for which we have data on both rates and estimated rating units, without a rates target is forecast to be $25.661 billion between 2027-2034. With a rates target (based on a per capita 4% increase over eight years), the saving across these twenty-eight local authorities is $0.733 billion over the eight years. This model is likely to drive efficiency in local authority service delivery as they will be expected to deliver but with limited ability to fund this delivery through significant rates increases.

Option Three – Rates cap with exclusions	
Transparent	Local authority spending on activities would be clearer to communities. For included activities (non-core services), local authorities would be required to spend within the cap and be accountable to their communities where spending over the cap is required. For excluded activities, revenue would need to be raised and ringfenced to spend only on those activities. Given this, ratepayers would more easily be able to see what local authorities are spending on which activity. Ratepayers would therefore be better informed when scrutinising their local authorities. The changes being made under the Amendment Bill and regulations on council reporting on specific groups of activities would go some way to achieving clearer information on council spending. However, this model would require more detailed groups of activities.
Subsidiarity	Local authorities would retain the ability to raise rates revenue for spending on excluded activities. However, they would be constrained in their ability to raise rates revenue for included activities. While this is a limitation greater than the status quo, it is not as great a limitation as with Option Four, as coverage is limited. The rates cap could also be tailored to local needs and be calculated based on projected local economic growth data and population changes, depending on how it is calculated. If it was set at a national level, it would not be adjustable for regional circumstances.

	Care is also needed in designing a regulatory function that a regulator does not interfere with decisions of local authorities beyond their scope. Councils will still face the competing mandates as described in the status quo. They will be required deliver on central government mandates, provide services to the community, and be responsive to the community's ability to fund these activities. The model will need to be designed to ensure central government cannot continue to place requirements on councils that are unfunded.
Effectiveness	*Limiting rates increases* Based on the best data available, rates used for the activities that would be included in the cap make up a relatively small proportion of local authority spending (about 20%) so the saving would be modest. Local authorities would be free to raise rates or charges to cover excluded activities like water and roading, so overall costs to ratepayers would remain largely as per the status quo or increase, as councils increased the amount spent on infrastructure. Significant and sharp rates increases may still occur under this option. Under the rates peg model in NSW, the cap at inflation largely delayed significant projects, leading to periods of significant increases when these projects occurred. *Prioritisation* This option would allow local authorities to raise rates freely for spending on core services, but they will be limited by ratepayers' ability to pay. Combined with the changes to the purpose of local government, there would be a clear direction from central government that local authorities should prioritise spending on core services. *Alternative tools* Local authorities may be encouraged to use alternative tools to fund included activities, but this is unlikely to be at a meaningful level. They will still rely on rates revenue to pay for excluded activities. A lot of council capital expenditure on infrastructure is also paid for by greater use of debt. With cost-of-living pressures, councils may take on more debt to pay for infrastructure. This would have implications for future generations having to pay off that debt. *Maintain sufficient service standards* This model does not target rates revenue collected for expenditure on core services, so local authorities are not supported to provide services in line with long-run measures of economic growth. The Department considers that a precise constraint on a limited number of services would be complex (and costly) for councils to administer, with limited savings to ratepayers, and lead to service standards falling below expectations.
Efficiency	There are significant costs associated with this model.

	Like Options Two and Four, this model requires a regulatory function. Though, under this model, the regulator's role would be larger and cost more. A regulator would be responsible for calculating the cost inputs for capped services. There would be complexity in identifying a starting point for an appropriate amount of investment in each capped service to avoid locking in underinvestment. A regulator would also need to be involved in separating the value of assets and overheads used for included and excluded activities, so that rates revenue is only capped if it will be allocated to assets and overheads that contribute to included services. It would also need to provide oversight of an exemption process. We stopped work on the development of the detailed regulatory design prior to costing, though expect that the cost of the regulatory regime would be similar to that of the local government components of the NSW regulator. There is an establishment cost for the Crown to develop a bespoke funding mechanisms to allow local government to meet commitments that flow from central government decisions, when these apply to areas subject to a cap (e.g., development levies). There are compliance costs for local authorities in separating financial systems to record separate costs for included and excluded services. Local authorities will experience a compliance cost when allocating overheads, debt and mixed-use assets to specific services. They also do not currently ring-fence revenue for those activities (except water). The cost of the financial and information technology changes have not been quantified. There is a possibility that local authorities current financial IT systems could not manage the change. They would also have increased costs in engaging with the regulator. 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. This model is likely to drive efficiency in local authority spending on included activities, as there would be a limit on the rates revenue that can be raised for those activities.
Option Four – Rates cap on all spending	
Transparent	Like Option Two (rates target), this model would enable greater oversight of local authority spending. With the changes through the Amendment Bill, local authorities will report in a consistent way on spending on standard groups of activities (allowing comparisons of amount between local authorities, amount per person, proportion of rates spent on each local authority activity). In time, this could include factors like a benchmark proportion of spending on core services. While the cap alone would not force local authorities to make trade-offs in line with the purpose of local government, it will emerge through market (public) pressure, with increased transparency around local authority spend.

	The public would be able to more clearly see why rates are increasing (depending on how the cap is calculated, e.g. CPI) and be better informed when scrutinising their local authorities. This model could drive conversations between communities and local authorities on trade-offs of spending on certain activities.
Subsidiarity	Under this model, local authorities would have less rates revenue to spend on services. This is likely to result in less services being delivered, or changes to the quality of services. Communities and local authorities can still determine how their rates revenue is spent within the cap, although will be encouraged to spend on core services in line with the amended purpose of local government in the Amendment Bill. The rates cap could also be tailored to local needs and be calculated based on projected local economic growth data and population changes, depending on how it is calculated. If it was set at a national level, it would not be adjustable for regional circumstances. Care is also needed in designing a regulatory function so that a regulator does not interfere with decisions of local authorities beyond their scope. Councils will still face the competing mandates as described in the status quo. They will be required deliver on central government mandates, provide services to the community, and be responsive to the community's ability to fund these activities. The model will need to be designed to ensure central government cannot continue to place requirements on councils that are unfunded.
Effectiveness	*Limiting rates increases* Any significant, sharp rates increase can be effectively avoided under this model as there would be a set percentage increase. *Prioritisation* It could encourage local authorities to prioritise spending on core services, although local authorities would still be able to spend on activities as they saw fit. They could prioritise more politically favourable activities over core services, which would leave little to no additional spend on core services, embedding current issues. Depending on how the cap is calculated, the cap could be set at a level insufficient to maintain these services over time. This could lead to a permanent infrastructure deficit, embedding current issues, raising future costs to the Crown and ratepayers, creating intergenerational inequities. Without a minimum rates increase like Option Two (rates target), councils would not be required to increase rates at all. Facing political pressure, they could offer rate decreases or zero percent increases, which would mean they would not be able to cover infrastructure maintenance. This would increase the infrastructure deficit.

	Any limitation on local authorities' ability to raise revenue from rates could have a chilling effect on infrastructure investment that is funded by rates, with local authorities potentially cancelling planned capital works projects in core services. *Alternative tools* This model would push local authorities towards greater use of alternative funding and financing tools, including where it is inefficient or inappropriate, because they would have less rates revenue to rely on. This could reduce net economic welfare for communities. A shift to more user charges will mean relief to those who do not use those services, like rural communities. *Maintain sufficient service standards* Depending on how the cap is set, it could also be in line with long-run measures of economic growth, which could support the maintenance of sufficient service standards, mitigating the risks of no minimum increase. However, local authorities would likely end up delivering fewer services than communities demand as a whole.
Efficiency	With a hard cap on all local authority spending, there is likely to be a significant increase in debt financing costs for local authorities. This is because lenders would demand higher interest rates on debt given income from rates is less certain. Finance costs of local government debt are limited by the certainty of borrowing from Local Government Funding Agency, backed by the certainty of the ability of local authorities to increase spending. There is likely to be a greater reliance on central government funding to cover services that local authorities can no longer afford to deliver, and to step in to respond to major events (as local authorities are unlikely to have the ability to save for those events). Local authorities will find it increasingly difficult to fulfil all statutory responsibilities. Like Options Two and Three, this model would require a regulatory function to enforce the cap, determine its calculation, and administer an exemption process. Costs will depend on how these functions would expected to be undertaken. There would be a large compliance costs on councils to comply with this model and engage in a regulator. There is likely to be many exemption applications. Smaller and rural councils without a large rating base are likely to wear a greater cost than other councils. This model would drive efficiency in local authority service delivery, but likely at the expense of quality and number of services being delivered.

Other impacts of limiting rates increases (Options Two, Three and Four)

122. While not part of our assessment criteria, there are wider impacts on any limitations to rates increases, including but not limited to:

    i. Rates constraints will, to varying degrees, reduce the overall rates take by all local authorities.
    ii. Impact on the local political debate on level of expenditure by councils.

iii. Expectations of more central Government support to territorial authorities, as most rates caps mechanism are supported by central government grants.

iv. Potentially lower rates of home ownership as rates become more affordable and become less of a reason for people to sell their homes, reducing the efficiency of housing and related labour markets.

123. Local authorities will still need to find funding for their statutory and other obligations set by central government. Currently there are no requirements for agencies to cost or fund these requirements and local authorities often use rates funding to fulfil these obligations. This is appropriate when public services are linked to an individual rating unit or location, with rates being the most effective tool that resembles a beneficiary pays system. With limitations on how much money they can raise from rates, local authorities will be restricted in their ability to fund activities to meet these obligations. A rates control model will need to account for local authorities being able to meet their legal obligations.

How do the options compare to the status quo/counterfactual?

	Option One: Status quo	Option Two: Rates target	Option Three: Rates cap with exclusions	Option 4: Rates cap on all spending
Transparent	0 Processes for scrutiny but difficult to find information to engage with. Changes to reporting in the Amendment Bill will help.	+ Clearer to see why rates are increasing as rates target range published.	+ Clearer to see what councils are spending on all activities.	0 Largely the same as status quo. If tied to CPI, would be easier for public to understand why rates are increasing.
Subsidiarity	0 Local authorities are free to set rates for local needs.	- Limit to local authority decision making, but autonomy within the target range.	- Limit to local authority decision making on included activities only.	- - Strict limit on local authority decision-making.
Effectiveness (stability, prioritisation, alternative tools, cost-effectiveness)	0 Not effective at meeting policy objectives.	+ Improves predictability of rates increases, encourages use of other tools, connected to long-run economic indicators. Could have undersupply of services.	- Limited impact on stability, unlikely to encourage alternative tools, won't be connected to long-run economic indicators.	- - Improves predictability of rates increases, pushes use of other tools (including when inappropriate). Likely large undersupply of services.
Efficiency	0 No new actions proposed.	- Cost of regulator to monitor, issue guidance, report on variations	- - Cost of regulator to monitor, issue guidance, determine how to ringfence funding for excluded activities	- - - Cost of regulator to administer exemptions regime, finance costs would increase, potential reliance on central government funding
Overall assessment	0	0	-	- -

Key for qualitative judgements:

++	much better than status quo
+	better than status quo
0	about the same as status quo
-	worse than status quo
- -	much worse than status quo

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

124. Assessed against the criteria, the Department does not have a preferred option between the status quo and a rates target.

125. The status quo has created volatility with rates increases year to year, but it is the option that best allows for community decision-making. Local authorities are ultimately responsible to their electorates. With more transparent reporting of revenue and expenditure under the Amendment Bill, communities will be able to make comparisons with other local authorities and better hold their local authorities to account. If this was accompanied by regulatory oversight that involved monitoring of local authorities, publishing data and findings, and issuing guidance, there would be greater checks on local authority spending through local democracy. If constituents do not agree with how local authorities are spending their money, they can choose to vote them out. These additions to the status quo could address some of Ministers' concerns about significant and sharp rates increases.

126. A rates target would allow greater scrutiny over local representatives and would be more effective at meeting the policy objectives. It would smooth rates increases, encourage local authorities to prioritise and better manage spending on core services, encourage more use of alternative funding and financing tools, and support local authorities to maintain sufficient service levels.

127. However, a rates target would have costs associated with it and place a limit on local authority decision-making. The success of the model will depend on how the range is calculated, the leniency by which variations are permitted, the extent to which central government will cost their requirements on local government, and how interventionist a regulator is. The best version of a rates target allows communities to respond to the current infrastructure deficit, pay for their statutory and other central government obligations, and address needs in their communities, whilst limiting the consequences to future ratepayers from lack of discipline. This depends on Ministerial decision making.

128. The Department considers that Options Three and Four will lead to unintended consequences and suboptimal outcomes. They place too great a limit on local authority decision-making, do not deliver on the policy objectives overall, and are likely to have significant costs associated with them.

129. The rates target is the option that is most likely to address Ministers' concerns around significant and sharp rates increases, while minimising risks of unintended consequences.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

130. The Minister's preferred option is the rates target model.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	Impact	Evidence Certainty
	Additional costs of the rates target compared to taking no action		
Regulated groups (local authorities)	Local authorities will be limited in ability to raise revenue, impacting levels of service delivery.	Unknown	-
	There will be ongoing costs for local authorities in engaging with the regulator once established.	Low	High
	Impact on local authority debt and financing costs is attempting to be mitigated through regulatory design. Early indications are that impacts of limitations alleviated through clear process to enable spending above the range.	Unknown	-
	Depending on how the target range is calculated, it might not consider region-specific circumstances like population growth and infrastructure needs. This would mean some local authorities would not be able to raise the revenue needed to address their circumstances.	High	-
	Potential restrictive effect on infrastructure investment that is funded by rates with local authorities potentially cancelling planned capital works projects in core services.	Unknown	Unknown
Regulator (Crown)	To have oversight of spending and develop the processes needed, a central economic regulator would be needed to monitor local authorities, issue guidance and advise on variances from the range. This is intended as a very light touch regulator, especially initially, based on information disclosure and developing guidance to the sector.	9(2)(f)(iv) [redacted]	Low
Others (communities, other Crown agencies)	Lower levels of service in areas outside delivering statutory obligations.	Reduction in services provided to the value of approx. $938 per rating unit over seven years	Low

	Costs to central government agencies to quantify future requirements on local authorities.	Medium	High
Total monetised costs		Medium	Low
Additional benefits of the preferred option compared to taking no action			
Regulated groups (local authorities)	Increased use of alternative funding and financing tools, less reliance of rates as a source of revenue.	Medium	High
	Anticipated prioritisation of expenditure to projects with the highest value.	Medium	Low
	Regulatory oversight reviews of local authority spending are likely to find opportunities for improvements in service delivery.	Medium	Unknown
	Rates target sets expectations that there will always be rates increases, meaning local authorities are likely to face less pressure to set zero percent rates increases.	Medium	Unknown
Regulator (Crown)	Monitoring of council rates increases outside the target range can be an early warning system of financial sustainability issues.	Medium	Unknown
Others (communities)	Multiple property owners benefit most from a reduction in rates spending and the consequent capitalisation into higher house prices, with lower welfare for renters as a result.	Unknown	Unknown
	Despite local authorities being able to set differentials, the rates target is still likely to increase the predictability of rates increases for ratepayers.	Medium	Unknown
	On average, rates per rating unit (excluding water rates) in New Zealand without a rates target are forecast to total $27021 over the years 2027-2034. Under a rates target of 2-4% per capita, annual increases would be moderated to 4 percent. This equates to a total rates bill for an average rating unit for the period from 2027-2034 of $26083. This indicates a saving of $938 per rating unit (property) over seven years. This does not mean every ratepayer will have savings under a rates target, but it indicates that total rates collection will decrease. It is anticipated that this will flow to ratepayers and is likely to provide some relief to cost-of-living pressures.	$938 per rating unit over seven years	Low

Total monetised benefits		Medium	Low

131. Depending on policy and regulatory design decisions, the benefits of the rates target will outweigh the costs. These decisions include:

    a. How the rate target range is calculated;

    b. The leniency with which variations above the target are permitted;

    c. How local authorities are expected to fulfil future statutory or other central government-imposed obligations;

    d. How interventionist a regulator is;

    e. The strictness of preliminary arrangements during a transition period.

132. Overall, there is likely to be improvement in the efficiency of local authority service delivery, and greater use of alternative funding and financing tools.

133. 9(2)(f)(iv) [redacted] rom 2027-2034, Total rates (excluding rates for water services) collected for New Zealand for the twenty-eight local authorities for which we have data on both rates and estimated rating units, without a rates taregt is forecast to be $25.661 billion between 2027-2034. With a rates target (based on a per capita 4% increase over eight years), the saving across these twenty-eight local authorities is $0.733 billion over the seven years. This is a crude measurement, only monetising the benefit for the twenty-eight local authorities for which we have complete data and is not considering things like a pathway to close the infrastructure deficit, potential for major events such as recovery from floods, any new responsibilities assigned by Government, savings from more efficient service delivery, and individual council circumstances and financial positions. But it indicates that total rates collection will decrease. It is anticipated that this will flow to ratepayers and is likely to provide some relief to the direct cost-of-living pressures of rates.

Section 3: Delivering an option

How will the proposal be implemented?

Upcoming policy decisions and legislative timeline

134. In November 2025 Cabinet will be asked to take in-principal decisions on the key design features of a rates target. The Minister of Local Government intends to announce Cabinet decisions soon after Cabinet, to provide early direction to local authorities as they begin planning for their 2027 long-term plans.

135. 9(2)(f)(iv) [redacted]

136. From November 2025 to February 2026, the Department intends to carry out targeted consultation on the formula used to calculate the rates target.

137. The Minister of Local Government intends to enact legislation on a rates target prior to the 2026 general election.

138. The implementation of a rates target is timed to give local authorities certainty of the Government's intention for capping rates as local authorities plan for 2027 long-term plans.

Rates band: transition timing

2027 - 2030			
2027	**2028**	**2029**	**2030**
2027-2037 LTPs set from 1 July. Councils **required to consider the rates band** in setting their 2027-2037 LTPs. Councils **required to report metrics** relevant to rates increases. DIA to **issue guidance** to councils on adjusting to the rates band. DIA to **monitor** rates increases, seek information from councils when the increases are significantly above the band.	**Regulator** set up from 1 July 2028. Limited regulatory powers available initially. Regulator to: • Issue guidance to councils • Monitor rates increases, seek information from councils when increases are significantly above the band, and report this to DIA and the Minister. **Additional regulatory tools** may be added to the regulator, such as assisting councils and suggesting changes.	Full rates band in effect for Year 3 of councils' 2027 LTPs. Councils **required to operate within the rates band**. For proposed significant and sustained increases beyond the band, councils will need to **justify the variation.** Process for variations to be outlined in legislation. **Full regulatory regime in effect**, including: • Directing change • Intervention in specific circumstances.	Full rates band in effect for 2030-2040 LTPs.

Figure 7: implementation timeline for a rates target

Preliminary arrangements from 1 July 2026

139. A period of preliminary arrangements is proposed before the full rates target is in place. Figure 7 sets out the rates target transition timeline. This transition creates time for current Government-led reforms to be in place, allows local authorities to focus on significant water reform during the 2027 financial planning cycle, and allows time to establish a regulatory regime.

140. During the transition period, preliminary arrangements will be in place. During this time, local authorities would be required to consider the rates target in their 2027-2037 long-term plans, and the options for meeting the target in the future. Local authorities would be subject to increased information disclosure and required to report on specific metrics. From 1 July 2029, local authorities would be required to operate within the rates target.

141. During the transition period, the Department would monitor local authorities and issue guidance for the first year, while a regulator is established. The Department would monitor rates increases, changes in the level of fees for services, and the proportion of spending on categories of spending.

Targeted consultation on the rates target formula

142. Subject to Cabinet agreement, the Department will undertake targeted consultation on how to set the rates target, using the information outlined in paragraph 94-101.

143. Consultation will be focused on the following questions:

   a. Do you agree with the proposed economic indicators to be included in a formula for setting a rates target range?

   b. If not, what economic indicators do you suggest should be included and why?

   c. Does setting the minimum of the target range in line with inflation ensure that local authorities can maintain service standards? If not, why not?

   d. Does the maximum of the range account for local authority spending on core services?

   e. What local authority spending will not be able to take place under this range? Why?

   f. Are changes to the range needed to account for variations between regions and local authorities?

   g. What changes do you propose and why?

Necessary supporting processes

144. To enable councils to fit within the target, additional clarity will be needed on the costs of central government decisions as they impact on local governments ("unfunded mandates"). To enable clarity on a national level, the Department considers that a regulator should:

   a. Be aware of anticipated costs on councils of new regulatory requirements, including how these are expected to change over time.

   b. Run a reconciliation process with councils, to check the accuracy of these estimates, and the actual costs imposed. As councils are accountable to their communities, we expect these would be delivered in a cost-effective manner.

   c. Allow rate increases above the target when requirements impose additional costs.

145. Processes in New South Wales where the peak body for councils runs a survey process serve as a useful guide for this process.

Implementation risks:

146. The risks to implementing the rates target relate to outstanding Ministerial decisions:

a. Funding is required for regulatory oversight of the model. There is a risk that this is not provided in relevant Budgets.

b. The transition period is necessary. If the model comes into full effect too soon, that will impact local authorities' ability to fund their current capital works programmes.

c. 9(2)(f)(iv) [redacted]

d. 9(2)(f)(iv) [redacted]

e. 9(2)(f)(iv) [redacted]

Appendix A: Local government funding and financing is coming under increased pressure, contributing to rates increases

147. While independent reviews have found that radical reform to local government funding and financing is not required (that the rates-based system remains appropriate for New Zealand), they also acknowledge that local authorities are under significant funding pressure and need to lift their performance in managing these pressures.[51] The reports noted that this includes making better use of all existing funding tools, not just rates.

Pressure from needing to address the infrastructure deficit, including for high-growth regions

148. Local authorities are responsible under the LGA for providing certain infrastructure services. Cost pressures on local authorities to deliver this infrastructure are being driven by capital and operating cost escalation, flowing from supply chain upheaval and a tight labour market during the COVID-19 pandemic, and accelerated headline inflation[52] since. Infrastructure costs have long been a major cause of rate increases, largely as local authorities have addressed long periods of underinvestment in local authority infrastructure and maintenance, and increased spending as a result. Local authorities are now needing to upgrade infrastructure, especially for water and wastewater treatment plants, and invest in more infrastructure to meet population growth demands. Around two thirds of capital expenditure for local authorities is applied to core infrastructure, not including libraries and other community facilities, or parks and reserves.[53]

149. As well as addressing end-of-life infrastructure, local authorities are responsible for ensuring there is sufficient infrastructure capacity to meet population growth. When a district or city expects population growth, more houses need to be built, which means more infrastructure such as wastewater systems need to be made available. Local authorities need to fund the additional infrastructure. Some districts are growing quickly, which places demands on revenue raising. The Treasury and Infrastructure Commission have outlined that to catch up on the infrastructure deficit, New Zealand will need a combination of higher spending on infrastructure and more efficient delivery.[54]

150. New infrastructure to support growth is funded by a mix of development contributions and general rates. If local authorities must use ratepayer funding to recover some of the costs of infrastructure projects, this means:

    a. there is less ratepayer funding to put towards non-growth costs, so projects must be scaled back or less infrastructure can be built, which will create future shortages; or

    b. rates must be raised to pay for the infrastructure that is needed, or cuts must be made to other areas of spending, which can create opposition to growth and new development from the community.

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[51] Independent reports on local government funding include Local Government Rates Inquiry (2007) Report of the Local Government Rates Inquiry; New Zealand Productivity Commission (2019) Local Government Funding and Financing; and Review into the Future for Local Government (2023) He piki tūranga, he piki kōtuku, Wellington: New Zealand.

[52] Headline inflation is a measure of total inflation that is not adjusted to remove volatile figures that could shift regardless of economic conditions (such as food and energy prices). It is related to shifts in the cost of living.

[53] Department of Internal Affairs analysis of forecast and actual capital expenditure for councils based on 2021– 2031 long-term plans (LONG-TERM PLANSs) and annual reports.

[54] New Zealand Infrastructure Commission Te Waihanga (2025) Draft National Infrastructure Plan.

151. Unless infrastructure can be delivered more efficiently, we will need to spend more to catch up. This means we will need a higher level of spending as a share of GDP. Data from long-term plans indicates that local authorities are trying to catch up on infrastructure investment by increases to fund capital works programmes, with sustained increases above the rate of GDP growth. For example, capital investment in water and wastewater as a share of GDP was 0.7% from 2006 to 2022; an increase from around 0.2% of GDP spent on water and wastewater in the 1980s and 1990s.[55]

152. At the same time as local authorities increased infrastructure spend, they were taking on more debt. Between 2004 and 2024, net debt to revenue in the sector increased from 27% to 185%.[56] The amount of debt local authorities have taken on has grown faster than the revenue. Net debt in the local government sector reached $28.5 billion by 30 June 2024, this is around $14,300 per household.

Pressure from adapting to climate change

153. New Zealand has a heightened natural hazard risk profile relative to other countries.[57] Natural hazard events are expected to be more severe and frequent, exacerbated by the effects of climate change.[58] Responding and adapting to climate change will add cost and this has not been comprehensively quantified.

154. Local authorities face costs as an owner of infrastructure. The replacement value of local authorities' infrastructure that is exposed to sea level rise of 1.5 meters was estimated at approximately $8 billion in 2019.[59]

155. Local authorities are also responsible for managing land use to avoid and mitigate natural hazards, including flood protection and associated assets. Avoiding and mitigating natural hazards can be expensive, but it is cheaper than incurring damage from natural hazard events. Auckland Council stated the expected recovery, property buy-outs and longer-term investments tied to the 2023 North Island Severe Weather Events was $4 billion.[60] New Zealand's Regional Councils have identified a ten-year pipeline of projects to improve flood resilience, with 80 projects in the first three years estimated to cost $329.35 million.

Pressure from unfunded central government requirements on local government

156. There is a broad range of other legislation conferring responsibilities on local authorities. A non-exhaustive list is set out in Appendix A of the Department's RIS on changes to purpose of local government, from November 2024.[61]

157. Local authorities must meet their regulatory requirements, though have discretion on:

   a. the level of service above regulatory requirements for regulated activities (for instance, of compliance above a minimum, etc.); and

   b. what other, non-regulatory services to provide (for instance, cultural events, tourism promotion).

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[55] New Zealand Infrastructure Commission Te Waihanga (2025) Nation Building: A century and a half of Infrastructure Investment in New Zealand.
[56] Martin Jenkins (2025) Local Government Financial Sustainability.
[57] Lloyd's ranked New Zealand second out of 43 countries it looked at in terms of expected losses from natural disasters. Llyod's (2018) A world at risk: Closing the insurance gap.
[58] Ministry for the Environment (2022) Aotearoa New Zealand's first national adaptation plan.
[59] LGNZ (2019) Vulnerable; The quantum of local government infrastructure exposed to sea level rise.
[60] Auckland Council (2023, July 25) Cost of flooding and cyclone events could hit $4 billion.
[61] Department of Internal Affairs (2024) Refocusing the purpose of local government. Available: [RIS Refocusing the purpose of local government]

158. At times this assigning of new responsibilities from central government happens without the new costs for local government being quantified. Funding arrangements for these roles differ and can include industry levies or an expectation that local government will increase rates revenue.

159. An example is the implementation of the National Policy Statement for Freshwater Management (NPS). The initial one-off cost for local authorities to comply with the NPS was estimated at between $1.4 and $2.1 billion.[62] On-going costs from the NPS spread across two thirds of regional and unitary local authorities are estimated to be $34.3 million to $35.3 million per annum. A second example is the combined average direct costs associated with complying with the National Policy Statement-Urban Development and Medium Density Residential Standards requirements across the Tier 1 territorial authorities and Queenstown Lakes District Council for the years between 2021 and 2025 could add up to $5.68 million per year, with costs of internal staff constituting 47 percent of this.[63]

Pressure from growth in visitors to regions

160. International visitor numbers grew by 54% between 2010 and 2019, with the rate of growth slowing during and following the outbreak of COVID-19.[64] In the year to July 2024, there were over 39 million guest nights in total around New Zealand.[65] This is a significant number of additional people for infrastructure networks to absorb. The presence of visitors is most noticeable in small towns with large visitor numbers.

161. Local government does not have a way to directly recoup infrastructure costs from visitors but infrastructure that visitors benefit from is funded from rates revenue. In some instances, this situation has led to local government not raising enough revenue to adequately invest in mixed-use infrastructure.

162. The local government sector has requested new funding tools, which could include bed taxes and visitor levies that are charged to visitors to fund infrastructure which has to be built to specifications beyond the needs of locals to accommodate peak demand (driven by tourism numbers). These are currently not being progressed by the Government.

Pressure from communities' expectations on levels of service provided by local authorities

163. Communities increasingly expect local authorities to provide more and better services. This puts pressure on the finances of local authorities.

Pressure from external economic factors

164. Local authorities are subject to external economic factors like the cost of servicing debt, inflation, and insurance prices. These can contribute to significant increases in the costs of infrastructure that territorial authorities purchase and associated insurance costs. For example, Infometrics noted the cost of building bridges had increased by 38% over a three-year period.[66]

165. Interest payments have increased to almost 6% of local authorities' total expenditure by 2024. This was influenced by interest rates increasing from 2021.

[62] Productivity Commission (2019) Local Government Funding and Finance.
[63] NZIER (2024) Cost impact of central government reforms. NZIER note the figures underestimate the true cost and that there is a lack of availability and consistency in cost information making it harder to provide robust evidence about cost impacts on local government.
[64] Stats NZ (2025) Visitor arrival totals (Annual-Dec) Available from: View table - Infoshare - Statistics New Zealand
[65] https://www.stats.govt.nz/information-releases/tourism-satellite-account-year-ended-march-2023/
[66] Infometrics (2024) Analysing increases in local government costs for Local Government New Zealand.

166. Inflation can be a significant driver of cost increases; however, it has reduced to 3% and is projected to be around 2% in 2026. There is uncertainty in the global economy, generated in part by emergence of protectionist trade policy. A less productive global economy and deglobalisation presents upside risk to import prices.[67]

167. The cost of insurance has been increasing at a faster rate than inflation since 2015. The cost is expected to increase over the coming decades as the effects of natural hazards are exacerbated by climate change and as insurers shift to risk-based insurance pricing and as the cost of re-insurance increases. For example, Christchurch City Council's insurance premiums have risen 72.5%, or $16.1 million, between the 2021/2022 financial year and early 2024.[68]

Local authority financial sustainability

168. Some local authorities have relatively high debt/revenue ratios. Local authority debt to revenue ratios were 185% in 2024 and are projected to increase to 220% by 2030.[69] The net debt/total revenue covenant for local authorities with a credit rating is 280%. Increasing debt to revenue ratios is contributing to a decline in credit quality. S&P Global Ratings downgraded credit ratings on eighteen local authorities in March 2025.[70] The consequence for local authorities is higher interest payments.

169. Martin Jenkins has found that local authorities' operating performance has deteriorated over time. From 2009, the sector has gone from running operating surpluses to deficits, indicating that the operating revenues are not sufficient to meet all of local authorities' operating costs when interest costs and depreciation expense are factored in.[71]

67 Reserve Bank of New Zealand (2025) Monetary Policy Statement August 2025.

68 Ella Somers (2024) Insurance premiums on the rise for NZ's biggest councils as range of risks put pressure on Auckland Council and Christchurch City Council's insurance costs, Available from: Interest.co.nz.

69 Martin Jenkins (2025) Local Government financial sustainability.

70 S&P Global (2025) Various Rating Actions Taken On New Zealand Councils on Lower Institutional Framework Assessment.

71 Martin Jenkins (2025) Local Government financial sustainability.

Appendix B: Government reforms aimed at addressing local government funding pressures

Central government reforms to address pressures

170. Several current central government reforms are aimed at addressing local authorities' funding pressures and will likely reduce some pressure on rates.

171. The Government is shifting to a "growth pays for growth" model for new developments with the Going for Housing Growth programme. As part of this, the Government is giving local authorities new infrastructure funding and financing tools to better enable them to recover the growth costs of infrastructure necessary for new housing development. This will see development contributions replaced with a new development levy tool, and enhancements made to targeted rates. In future, the cost of infrastructure to support growth will be funded by those who benefit from the growth, rather than by the current mix of beneficiaries and all ratepayers.

172. With Local Water Done Well, the Government is addressing long-standing water infrastructure challenges, enabling different service delivery models and freeing up debt headroom, while ensuring a strong emphasis on meeting economic, environmental and water quality regulatory requirements. The programme also recognises the importance of local decision making and flexibility for communities and local authorities to determine how their water services will be delivered in the future.

173. Resource management reforms are expected to increase costs for local authorities while the existing and new systems are both operational. Analysis by infrastructure strategic advice firm Castalia, is that the reforms are estimated to significantly reduce administrative and compliance costs once fully implemented. The cost reductions are largely driven by streamlining of national direction, regional spatial planning, and standardisation.[72]

174. The Government plans to make structural changes to the building consenting authorities, including changing the sector's liability settings from joint and several liability to proportionate liability. This will mean local authorities are not left carrying the full cost of building failure. The Government is also allowing local authorities to voluntarily consolidate their Building Consent Authorities (BCAs) functions with each other.

175. The City and Regional Deals programme aims to support long-term collaboration between central and local government for delivering shared outcomes around economic growth, infrastructure, and housing supply.

176. Other than policy reform, central government is limited in its ability to ease pressure on rates. Central government has a constrained fiscal position, with limited ability to share revenue with local government. Examples of revenue sharing are sharing GST on new build housing, increasing the funding assistance rate for roading, or paying rates on currently exempted Crown land.

[72] Castalia (2025) Economic impact analysis of the proposed resource management reforms.