

New Zealand Local Government Brief: Rates Cap Tightens The Financial Screws

December 2, 2025

This report does not constitute a rating action.

A cap on annual increases in property rates could strain the finances of New Zealand's debt-laden local councils. Unless the cap is matched over time with cuts to spending growth, we believe this will be credit negative for the sector.

What's Happening

On Dec. 1, 2025, New Zealand's central government announced that it will limit growth in local council rates to 2%-4% per year. The cap starts in 2029, but monitoring of rates will begin in 2027, presumably to dissuade frontloading of rate hikes. Rates inflation was 12.2% in the year to June 2025, the highest in decades. "Rates" (general rates, targeted rates, and uniform annual charges) are recurrent taxes levied by councils on property owners.

Why It Matters

Capping rates could exacerbate fiscal imbalances. New Zealand's councils have broad autonomy to raise rates as much as they see fit, and recent annual increases have far exceeded inflation. Despite this, some have failed to achieve balanced budgets (on an accrual basis), as required by regulation. If councils are inhibited in their ability to lift future rates, they could further struggle to balance the books or lean more heavily on debt to finance capital expenditure. This will weigh on credit quality. Subnational cash deficits and debt ratios in New Zealand are already much higher than global peers'.

Budgetary flexibility may no longer be superior to other municipal systems. We presently assess 10 councils (out of 24) as having above-average fiscal flexibility relative to domestic and international peers, and we reflect this in a positive adjustment to their budgetary performance assessments. We could remove this adjustment if a strict rates cap were enacted. (There may be exceptions for a handful of councils with large investment funds or sellable assets.)

Underinvestment could be an unintended outcome. A rates cap could lead to deferred maintenance or asset renewals, as observed in some Australian councils operating under a similar regime. In a recent briefing, New Zealand's Treasury cautioned: "Successive underspending by local councils over the last 35 years, in the face of pressure to keep rates low

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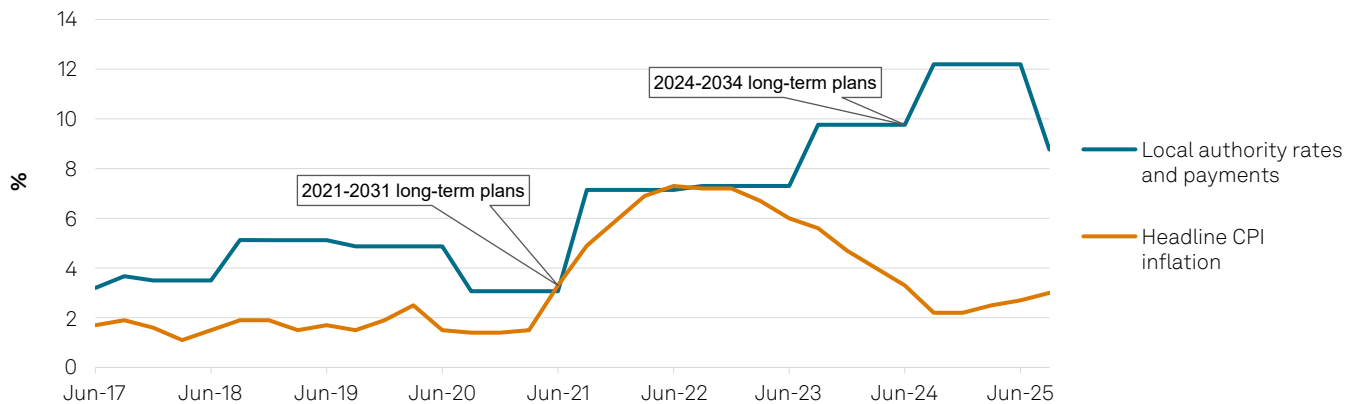
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and rate rises to a minimum, means that rates are significantly below the level that they need to be in order to be considered sustainable."

The proposed cap adds to policy uncertainty. In February 2025, we lowered our institutional framework assessment on the New Zealand council sector. Since then, the central government has unveiled an ambitious slew of proposals to reform the Resource Management Act, supplant regional councils, implement a regulated development levies system, and force councils to prioritize "core" services. The cumulative impact of these workstreams makes long-term planning difficult.

New Zealand council rates increases outpace broader inflation

Year-on-year price growth



Source: Stats NZ.

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What Comes Next

Councils will need to contemplate cost cuts. We anticipate that some councils will downsize (usually discreetly, through hiring freezes or a "sinking lid" policy), reduce levels of service, or seek other efficiencies. If councils hope to plough on with large capital investment programs, they may be forced to take on more debt. This would be credit negative.

There is limited scope to raise non-rates revenue. At most councils, rates revenue represents about one-half to two-thirds of total income. Some councils could partly offset lost rates revenue by lifting parking fees, bus fares, and other user charges. However, many other revenue lines, like consenting fees and development contributions, operate on a cost recovery model under legislation.

How exemptions are assessed will be important. Councils will be able to seek permission from a regulator to exceed the cap "in extreme circumstances, such as a natural disaster" or for "catching up on past underinvestment." But as severe weather events become increasingly common, and with many councils wanting to renew ageing assets, the regulator's amenability to exceptions could be a crucial credit consideration. Councils are not homogenous. A one-size-fits-all cap could heap pressure on those councils that need revenue growth the most.

We will update our credit views on each council as plans become clearer. As councils prepare their next round of budgets, the impact on credit ratings will hinge on the extent to which they can tighten their belts in a revenue-constrained environment.

Related Research

- [New Zealand Water Reforms Don't Guarantee Rating Relief For Local Councils](#), Oct. 28, 2025
- [Institutional Framework Assessment: New Zealand Local Governments Face Rising Fiscal Imbalances And Less Certain Policy Settings](#), March 17, 2025

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