Greater Wellington
Te Pane Matua Taiao

Office of the Chairperson
100 Cuba Street
Wellington 6011
PO Box 11646
Manners Street
Wellington 6142

By email

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Department of Internal Affairs
45 Pipitea Street, Wellington
Email: ratescapping@dia.govt.nz

Submission on the proposed rates target model for New Zealand

Attached is a submission on the proposal to introduce rate capping to all local and regional Councils in New Zealand on behalf of Greater Wellington Regional Council.

Greater Wellington acknowledges the intent behind introducing a rates cap but considers that the proposal, in its current form, does not reflect the complexities councils face in delivering large-scale, multi-year infrastructure and service programmes. It also does not recognise the significant differences in the services and statutory responsibilities of regional, territorial, and unitary councils, each with distinct cost drivers. In our case particularly for major infrastructure, environmental programmes, public transport, and flood protection. As drafted, it is not a fair solution to minimise rates increases for our ratepayers while still enabling councils to deliver the critical services they require.

We argue that this proposal would benefit from meaningful consultation with councils to ensure a full understanding of the affordability pressures and the increasing demand for improved services we are required to deliver. Without involving councils in its development, the proposal does not yet capture the realities we face or the drivers behind our investment decisions. Careful consideration and deeper engagement now will help avoid unintended consequences and higher costs for our communities in the future.

We wish to have the opportunity to speak directly to any decision-making group if possible. The officer for contact purposes will be Kyn.Drake@gw.govt.nz

Ngā mihi

Daran Ponter
Chair
Greater Wellington Regional Council

Submission on the proposed rates target model for New Zealand

From: Greater Wellington Regional Council

To: Department of Internal Affairs

Summary

Greater Wellington Regional Council provides essential services to a region facing significant natural hazards while maintaining the highest credit rating for our prudent financial management. The proposal to introduce rates capping would come with considerable burdens that would ultimately harm the public it is intended to benefit. Our concerns are:

- Suitability of Proposed Economic Indicators
    - The proposed use of CPI and GDP is ill-suited to council cost structures. The indicators need refinement to reflect real council costs, obligations, and asset-investment requirements.
- Aligning Minimum Target with CPI
    - CPI-based minimums do not maintain service levels.
    - Councils face cost pressures far above CPI, including: escalating insurance premiums, new compliance requirements, ageing infrastructure renewal, construction cost inflation, increasing financing costs
- Maximum Target and Core Services
    - The proposed maximum cap does not account for essential expenditure, especially for regional councils with large public transport, environmental, and resilience responsibilities. Councils and communities would face service cuts, delayed renewals, or large fare increases for public transport.
- Variations Between Councils
    - Councils differ substantially in their service profiles and cost drivers. A uniform cap is unworkable; targets would need to be council-specific.
- Alternative Indicators
    - Councils are asset-intensive, and financial indicators should reflect asset condition and renewal needs. Many councils already rely on the Local Government Cost Index (LGCI), which better matches council cost drivers.

We propose the following recommendations to be considered:

- → ***Recommendation:*** *The proposed economic indicators should be replaced by different economic indicators that more accurately reflect council cost drivers and circumstances.*

- → ***Recommendation:*** *That councils adopt asset condition as a core economic indicator within revenue-setting and long-term planning frameworks*

- → ***Recommendation:*** *Adopt a benchmark that better captures the unique inflationary pressures on local authorities, such as a Local Government Cost Index or a blended index that incorporates construction cost inflation, insurance premium trends, regulatory compliance costs, and financing pressures.*

- → ***Recommendation:*** *central government should consider supporting mechanisms, such as co-funding for compliance-driven obligations or risk-sharing arrangements for insurance, to further mitigate pressures that CPI fails to capture.*

- → ***Recommendation****: That a sustainable New Zealand framework should combine independent oversight, transparency, and flexibility, rather than adopt rigid caps that risk infrastructure decline over time.*

- → ***Recommendation:*** *Recognise structural differences in mandated services, co-funding arrangements, and demand pressures. Tailor any capping to each specific local authority.*

- → ***Recommendation:*** *That public transport expenditure be excluded from the Rates Target Model; or if not excluded, that allowable increases in rates funding for public transport be aligned to Waka Kotahi NZ Transport Agency cost indices, to reflect mandated cost drivers and minimise the need for recurring variation or exemption processes.*

Background

1. Greater Wellington Regional Council (Greater Wellington) is one of 11 Regional Councils in New Zealand. We play a core role in the management of natural resources including land, air, and water; supporting biodiversity and biosecurity; providing regional public transport services, and building more resilient communities in the face of climate change and natural hazards.

2. Our services to our communities are distinctly different to that of territorial authorities, (City and District Councils) who primarily manage a wide range of local services including roads, water reticulation, sewerage and refuse collection, libraries, city parks and recreation services, local regulations, community and economic development, and town planning.

3. The Capital and Operational expenditure requirements vary greatly between regional and territorial authorities, as well as from council to council depending on their unique challenges, rating populations, and historical investment priorities.

4. The Greater Wellington Region has a population exceeding half a million people, and is geographically located in an earthquake prone area, which is also exposed to serious flooding and drought conditions. The majority of our towns are located on the floodplains of major rivers, with around 30 percent of our population living in flood prone areas. These are just some of the additional challenges our council must consider when making decisions to protect our communities and to provide infrastructure that can enable prosperous economic growth.

5. Greater Wellington has a strong track record of prudent financial management recognised by Standard and Poors (S&P). Greater Wellington has had a credit rating of AA from S&P, which is currently the highest for local government entities. This strong assessment reflects S&P recognition of the council's disciplined financial management, prudent treasury policy, strong liquidity and operating stability. The rating affirms confidence in the Council's ability to deliver on its Long-Term Plan – especially critical as it navigates rising debt levels, infrastructure investment, and inflationary pressures. Recently, a more negative outlook has been given as a result of external factors such as the huge expenditure and debt tied to the waters reform.

6. S&P noted that "Greater Wellington's rate bills are lower than those of most local governments in New Zealand. Accordingly, its rate increases are not as burdensome on local ratepayers in nominal dollar terms." This highlights that percentage-based caps are not an appropriate measure for councils starting from a lower rating base, as they can give a misleading impression of impact despite relatively low absolute rate levels.

7. S&P commented in their January 2026 latest rating “We assess Greater Wellington's financial management as very strong in a global context.” They also note the downside scenario “We could downgrade Greater Wellington if our assessment of its financial management were to weaken. Weaker management could lead to deterioration in financial outcomes, particularly if the council is unable to effectively address forthcoming external policy changes. For example, potential caps on increases in property rates could keep the council's operating accounts in deficit.

8. Our high credit rating is beneficial to ratepayers as it allows us to secure better borrowing rates, reducing costs and allowing for easier management of capital spending without incurring higher financial charges.

Responding to your technical consultation questions

Q1: Do you agree with the proposed economic indicators to be included in a formula for setting a rates target?

No. Greater Wellington considers that the proposed economic indicators would benefit from further refinement to ensure they accurately reflect council cost drivers and circumstances.

The indicators are not compatible with the measurements that local government currently use in their decision-making and investment. This doesn’t align with the forecasting delivered in Long Term Plans, therefore risking making future planning reactionary rather than proactive.

While Consumer Price Index (CPI) and Gross Domestic Product (GDP) are widely used macroeconomic indicators, they are fundamentally ill-suited to guiding local government planning and financial sustainability. Local authorities operate in a context shaped by population change, service demand, infrastructure obligations, and statutory responsibilities. Factors that CPI and GDP neither capture nor reflect adequately.

Public transport costs are predominantly driven by external market forces, as well as nationally mandated standards and indices that significantly limit local discretion. NZTA sets cost indices, vehicle standards, farebox recovery (private share revenue) policy settings, and contracting frameworks, all of which councils must reflect when procuring and operating services. Cost increases arising from these requirements are therefore often unavoidable and do not align with general inflation or nominal GDP, making the application of a generic rates cap poorly suited to public transport expenditure.

CPI

The proposal to use CPI (Consumer Price Index) to form the lower end of the target range (around 2 percent) does not reflect the operating environment for local government, nor the cost coefficients required to deliver Long-Term Plans.

CPI measures inflation by tracking the average change over time in the prices consumers pay for everyday goods and services, such as food, housing, and transport. It reflects changes in purchasing power and is commonly used to inform national-level economic settings such as interest rates, wage movements, and broader economic policy. However, these indicators do not align with the cost drivers relevant to local government, which are shaped by factors such as population growth, the number of rating units, depreciation, and the condition and renewal needs of infrastructure.

Local government expenditure is dominated by:

- Construction and infrastructure costs
- Financing costs
- Public transport operating contracts
- Professional services and regulatory compliance
- Labour-intensive services (e.g. parks, libraries, consents, community facilities)
- Utilities, insurance, and contractor rates

These cost drivers often increase at rates exceeding CPI. Construction cost inflation, insurance premiums, and wage settlements in specialist roles frequently diverge from consumer inflation trends. Reliance on CPI therefore could systematically understate the true cost pressures facing councils and create funding gaps over time.

The proposal to use Gross Domestic Product (GDP) to form the higher end of the target range (around 4%) could limit councils' ability to upgrade or implement new infrastructure initiatives. An example of this is Te Wai Takamori o Te Awa Kairangi - RiverLink.

RiverLink is a transformative project for Lower Hutt, delivering integrated flood protection, transport improvements, and urban renewal. Its delivery relies on substantial co-investment from government partners, alongside regional funding and council borrowing.

The project provides critical protection for lives, property, and economic activity across the Hutt Valley. Greater Wellington's investment to date (estimated at $200–$300 million), covers design, planning, property acquisition, and construction of new stopbanks. Funding to service the associated debt is drawn from both targeted and general rates. The targeted contribution is collected through the River Management Rate, which directly supports RiverLink's flood

protection works, while general rates fund up to 50 percent of Greater Wellington's remaining share.

RiverLink alone represents approximately 7 percent of projected future rates increases for Greater Wellington. A rates cap of 4 percent would significantly constrain Greater Wellington's ability to deliver the project as planned. From what we understand of the proposal, RiverLink could technically apply for an exemption (under the proposal), demonstrating a return to an "acceptable" rate path would be extremely challenging without major project delays, reduction in scope, or other changes that would compromise intended outcomes.

GDP

GDP measures the total monetary value of all final goods and services produced within a country over a defined period. It is a key indicator of national economic size and performance, typically calculated through total spending (consumption, investment, government expenditure, and net exports) or total income. However, GDP is a central-government metric and has limited relevance to local government decision-making.

For councils, fiscal capacity is instead shaped by:

- The number and value of rateable units
- The proportion of non-rateable or exempt land (e.g., Māori freehold land, churches, conservation estates)
- Affordability, as determined by independent property valuations (e.g., QV)
- Service usage, including public transport patronage and participation in recreational or community activities

A region may experience strong GDP growth driven by 'capital-intensive' sectors (such as ports, energy, or agricultural exports etc.) without any corresponding increase in the ratepayer base or household incomes. Similarly, GDP may remain flat even as population growth or urban expansion places greater pressure on council services.

Public transport (a core service) costs are predominantly driven by external market forces, as well as nationally mandated standards and indices that significantly limit local discretion. NZTA sets cost indices, vehicle standards, farebox recovery (private share revenue) policy settings, and contracting frameworks, all of which councils must reflect when procuring and operating services. Cost increases arising from these requirements are therefore often unavoidable and do not align with general inflation or nominal GDP, making the application of a generic rates cap poorly suited to public transport expenditure.

For Greater Wellington, understanding demographic change (including an ageing population) and increasing demand for accessible services, alongside managing infrastructure, is essential to supporting the economic wellbeing of our communities.

Providing councils with the ability to apply to a regulator for an exemption in exceptional circumstances (such as natural disasters or addressing historic underinvestment) is well-intentioned. However, introducing an additional approval layer may create unnecessary administrative complexity, potentially slowing delivery and increasing costs. Existing auditing and assurance processes already provide a robust mechanism for monitoring the appropriateness of expenditure and ensuring councils remain compliant with statutory and financial requirements. Building on these established systems, rather than creating new approval pathways, would support efficiency and reduce duplication.

Recommendation: The proposed economic indicators should be replaced by different economic indicators that more accurately reflect council cost drivers and circumstances.

Q2: If not, what economic indicators do you suggest be included and why?

Councils are fundamentally asset-intensive organisations. Public transport (buses, trains, ferries, depots), flood protection (stop banks), pipes, buildings, parks, monitoring stations and community facilities are the physical means through which our services are delivered. The condition of these assets directly determines service capacity, service quality, and service risk.

<u>Asset condition: a possible economic indicator</u>

Traditional economic indicators used in council revenue-setting (operating surpluses, debt ratios, or rates affordability) often fail to capture deferred maintenance and renewal backlogs. Poor asset condition is effectively a form of unfunded liability, even if it does not appear on the balance sheet. When asset renewal is postponed to improve affordability in the short term, costs are deferred and usually amplified.

Including asset condition as an economic indicator:

- Makes hidden liabilities visible
- Exposes the long-term cost of under-investment
- Prevents intergenerational inequity, where future ratepayers inherit deteriorated assets and higher renewal costs

From an economic perspective, asset condition provides leading insight into future cost pressures — something that retrospective financial statements cannot do.

Asset deteriorating conditions become an economic risk, increasing:

- Service disruptions (trains and buses, contamination, monitoring issues, pipe bursts, facility closures)
- Health and safety risks
- Emergency repair costs
- Reputational and legal exposure

All of these consequences have direct economic impacts on communities and councils — from lost productivity and emergency spending to insurance claims and regulatory intervention. Using asset condition as an economic indicator enables councils to frame revenue decisions not just as affordability questions, but as risk-management decisions.

Economic indicators need to be more nuanced according to the percentage of council services, i.e. public transport for Regional Councils is not the same as landfill or libraries for local councils.

Each council has different levels of services for different activities with different challenges which are being provided to communities and being funded in varying ways. As these varying levels of services increase and are predicted to substantially increase, an indicator that reflects this is crucial to ensuring sufficient investment to meet the required needs.

Just like the increasing levels of services, the unforeseen changes in our natural, economic or social environment need to be included determining factors or indicators to provide for the community.

All councils have assets in different states of condition, some being relatively new with a much longer life span and others with end-of-life approaching fast. In some places, assets have simply faced unforeseen damage or excessive deterioration while others have faced conscious decision-making to defer investment in wake of more visible 'shiny' projects.

Many councils throughout New Zealand already use the Local Government Cost Index (LGCI) as their rates increase benchmark. The LGCI is an input-cost index designed to measure changes in the costs faced by local authorities, rather than changes in household prices. It reflects the mix of expenses councils actually incur—such as labour, construction, professional services, energy, and materials—using weights that are more representative of council activities than the CPI.

Recommendation: That councils adopt asset condition as a core economic indicator within revenue-setting and long-term planning frameworks.

Q3: Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards? If not, why not?

Aligning the minimum target with CPI does not enable councils to maintain service standards. CPI tracks consumer inflation, but it does not reflect the cost pressures experienced by local government. Councils face a diverse range of operational and capital costs that increase at different rates and for reasons unrelated to household spending.

Some examples follow.

Insurance costs

- Climate change impacts: More frequent and severe weather events increase claims, driving premiums higher.
- Rising asset values: As council infrastructure becomes more valuable, insurance costs increase proportionately.

Legislative and compliance costs

- New regulatory requirements (e.g., health and safety, environmental standards, accessibility) require system upgrades and ongoing compliance investment.
- Councils must often engage specialised consultants and legal advice to interpret and implement new legislation.

Infrastructure and maintenance costs

- Ageing assets: Many council assets require significant renewal or replacement, often at costs far exceeding CPI.
- Higher design standards: Modern requirements for sustainability, accessibility, and resilience add complexity and cost.
- Materials and labour pressures: Global supply chain disruptions and domestic labour shortages (exacerbated by the recent pandemic) continue to inflate construction costs well above CPI.

Financing and repayment costs

- Inflation spikes and economic downturns affect borrowing costs, directly impacting project budgets.

- Ongoing national-level reforms and uncertainty in funding support (e.g., water, RMA, public transport) have contributed to a weaker financial outlook, limiting borrowing capacity and increasing costs to ratepayers.

Given these pressures, CPI does not provide an accurate or suitable benchmark for the costs that councils must manage to maintain existing service levels, let alone invest in future needs. Alternative funding methods, such as increases to user fees and charges, cannot sufficiently offset this gap and would not enable councils to sustain required service standards under a CPI-based minimum target.

Recommendation: adopt a benchmark that better captures the unique inflationary pressures on local authorities, such as a Local Government Cost Index or a blended index that incorporates construction cost inflation, insurance premium trends, regulatory compliance costs, and financing pressures.

Recommendation: central government should consider supporting mechanisms, such as co-funding for compliance-driven obligations or risk-sharing arrangements for insurance, to further mitigate pressures that CPI fails to capture.

Q4: Does the <u>maximum</u> of the target account for council spending on core services?

The proposed maximum target does not adequately account for the breadth and complexity of council expenditure, particularly for councils like Greater Wellington that deliver significant regional services. If the cap were enforced without adjustment, a substantial portion of essential activities would fall outside allowable limits, effectively halting or delaying critical investment.

With limited room inside a strict cap, councils with public transport responsibilities would face immediate pressure to pass through rising operational and asset-related costs (such as fuel increases or the cost of transitioning to electric fleets) to users via higher fares.

These impacts would likely reduce patronage, meaning more road use and therefore greater costs for both consumers (through congestion) and government (through maintenance and upgrades) as decarbonisation is not a priority.

A range of core services and statutory obligations would therefore be compromised. Key impacts include, but are not limited to, the following:

<u>Public Transport</u>

Public transport expenditure should be excluded from the proposed Rates Target Model due to its unique co-funding and cost setting arrangements. Public transport is delivered within a

nationally integrated funding system administered by New Zealand Transport Agency (NZTA), with councils required to meet prescribed local share contributions in order to access Crown funding through the National Land Transport Programme. Applying a rates cap would constrain councils' ability to participate in these arrangements and risks foregone central government investment, despite services and costs being consistent with nationally agreed plans, as well as priorities signalled through the Government Policy Statement (GPS) on land transport.

Infrastructure of National Significance

Under the Resource Management Act (RMA), councils must recognise certain infrastructure as nationally significant. This includes assets vital to community and economic resilience, such as:

- Flood protection schemes
- Public transport and rail infrastructure
- Drinking water sources and networks
- Regional parks and ecological assets

These assets require consistent investment in operations, maintenance, renewals, and upgrades. A rigid cap would prevent Greater Wellington from meeting statutory requirements, maintaining service reliability, or mitigating risks associated with asset failure—particularly in the face of climate change and population growth.

Carbon Reduction Works

Greater Wellington is progressing a wide range of carbon-reduction initiatives to support regional and national emissions targets. These include:

- Electrification and decarbonisation of the public transport fleet
- Improved emissions data and monitoring
- Low-emissions procurement practices
- Support for mana whenua climate adaptation planning
- Nature-based climate resilience projects

Such programmes require sustained, and often upfront, investment. A restrictive cap would force councils to defer or reduce climate-critical projects, undermining emissions reduction pathways and increasing long-term environmental and financial risk.

New Environmental Initiatives

As a regional environmental authority, Greater Wellington has public support to invest in biodiversity protection and ecosystem restoration. A rates cap would essentially prevent support for expenditure on emerging environmental initiatives Especially those initiated by the public.

Insufficient investment in environmental programmes risks biodiversity loss, ecological degradation, and reduced resilience to climate impacts, with flow-on effects for recreation, tourism, public health, and water quality.

Cost of Reforms

Councils face increasing costs associated with central government reforms, including:

- Water services reform
- Resource management system changes
- Potential governance or structural changes (e.g., Simplifying Local Government proposal)

These costs are often mandated and unavoidable, covering staffing, transition resourcing, legal expertise, systems changes, and public engagement. A rigid cap offers no flexibility to meet these externally imposed cost pressures. In some cases these costs unnecessarily escalate when new governments come in and repeal and propose new directs for reforms, making previous work redundant.

Critical Skill Roles

Certain roles essential to public safety, environmental protection, asset management, and transport operations are highly specialised and do not follow CPI-based labour trends. These include:

- Engineers
- Environmental scientists
- Planners
- Transport specialists
- Cybersecurity and digital experts

A cap that does not account for labour market realities would undermine councils' ability to attract and retain the critical expertise required to deliver statutory services.

Judicial and Legal Costs

Councils regularly incur unplanned legal and judicial expenses, such as:

- Environment Court hearings
- RMA appeals
- Procurement disputes
- Compliance or enforcement matters

These costs are reactive, essential, and unpredictable. Limited budget flexibility would require funds to be diverted from core services to address legal challenges.

ICT and Cybersecurity Requirements

Modern council operations rely on secure, resilient, and compliant digital infrastructure. Necessary investment includes:

- Cybersecurity protection and response
- Replacement of ageing systems
- Digital transformation to meet transparency and data standards
- Ensuring continuity of critical service systems (e.g., transport, emergency management)

The evolving threat landscape means ICT and cybersecurity investment cannot be safely constrained by rigid caps.

Insurance and Resilience Costs

Insurance premiums for major regional assets (including stopbanks, flood protection, public transport fleets, and assets operated collaboratively with KiwiRail) —continue to escalate due to climate-related risk and market pressures. These costs are essential for protecting billions of dollars in public assets.

An example of these escalating costs are our costs associated with rail. In 2015, this was $550,000, now in 2026 it is $8,4000,000 and projected to be $9,400,000 in 2027.

Restrictive caps would limit councils' ability to maintain appropriate insurance cover or build adequate self-insurance reserves, exposing communities to significant financial and disaster-recovery risk.

Recommendation: Oppose a rigid maximum spending target as proposed and advocate for a flexible cap framework

Q5: What council spending will not be able to take place under this target range? Why?

The introduction of a targeted rates range would materially reduce councils' ability to invest in their communities and respond to emerging needs. Key implications include:

- **Reduced capacity to maintain adequate insurance or build financial reserves,** limiting councils' ability to manage unforeseen events without relying more heavily on debt.

- **Constrained access to borrowing, as debt is secured against rates revenue.** A cap on rates increases may affect credit ratings and, in turn, debt capacity. This will impact directly on our ability to support growth

- **Limitations on improving levels of service,** including community-driven requests such as additional public transport routes or additional investment in the recreational network above 'business as usual' e.g. investing in a new regional park, expanding the off -road cycleway network or running summer programmes for the public. While user fees may offset some costs, reliable cost recovery is often challenging. Public Transport services need to be able to meet growing demand in urban areas or face more reliance on roads and greater congestion issues etc.

- **Diminished ability to coordinate or combine capital projects**, either within a council or in partnership with others. For example, aligning stopbank upgrades with bridge replacements nearing end of life may no longer be feasible within a capped environment.

- **Less resilience to manage unpredictable or legally driven expenditure**, as some reactive or compliance-related costs cannot be forecast or easily accommodated within a fixed cap.

Q6: Are changes to the target needed to account for variations between regions and councils? What changes do you propose and why?

Councils throughout New Zealand operate with markedly different geographical challenges, service profiles, statutory responsibilities, and cost drivers. For this reason, rates-capping targets should be set at the individual council level based on their activity mix. A uniform target does not account for the substantial variation in expenditure patterns across local government, for example, public transport represents approximately 63.2 percent of Greater Wellington's operating expenditure compared with approximately 42 percent at Environment Canterbury.

This diversity means a one-size-fits-all approach would not provide a fair or workable framework. Tailored targets would better reflect each council's specific activities, investment requirements, and community priorities.

Recommendation: Recognise structural differences in mandated services, co-funding arrangements, and demand pressures. Tailor any capping to each specific local authority.

In addition to the questions asked:

Learning from Australian Approaches to Rates Regulation

Following the Government's announcement of a proposed rates-capping model, Greater Wellington undertook an assessment of the various systems used across Australian states. The Australian experience provides important lessons for New Zealand as it considers future reforms.

Across Australian jurisdictions, hard rates caps have produced several unintended consequences, including under-investment in essential infrastructure and increased administrative burden for both councils and regulators. Evidence from New South Wales and Victoria shows that strict caps can lead councils to defer renewals, reduce service levels, or raise other fees and charges to compensate, distorting long-term financial decisions.

Therefore, a more balanced approach is required. An approach that improves transparency and accountability while allowing flexibility for infrastructure needs, population growth, and emergency events.

South Australia offers a particularly relevant model. Rather than imposing a fixed rates cap, the *Local Government (Rate Oversight) Amendment Act 2018* created the Essential Services Commission of South Australia (ESCOSA), an independent economic regulator, to monitor and oversee councils' rate-setting processes. ESCOSA sets an annual primary rate cap, assesses applications for variations, and reports publicly on compliance and the effects of the oversight system. This framework emphasises independent scrutiny, disclosure, and good-practice financial management rather than rigid limits. Councils can seek variations for essential infrastructure, growth pressures, or unforeseen events provided they demonstrate community engagement and long-term financial justification. ESCOSA's guidance, monitoring, and reporting functions ensure operational discipline without compromising critical investment or resilience needs.

Lessons learned from Australian models suggest that a sustainable New Zealand framework should combine independent oversight, transparency, and flexibility, rather than adopt rigid caps that risk infrastructure decline over time.

There is also value in exploring new revenue options to support local infrastructure and growth. One such option is enabling councils to retain GST collected on their rates (and potentially other revenue streams) creating a more direct link between local economic activity and the funding available for essential services. A further opportunity lies in reviewing rating exemptions under the Rating Act, including certain government and religious properties, to broaden the rating base and improve equity for ratepayers.

Diversifying revenue through GST retention, selective reduction of exemptions, targeted infrastructure levies, and strengthened central-local co-funding arrangements would help build a more resilient, future-proof local government funding system. Together, these measures

would strengthen councils' ability to deliver sustainable infrastructure, manage risk, and protect communities, without relying on blunt rate-capping mechanisms that have proven problematic elsewhere.

Other matters worth noting:

A. Calculations

The proposal appears to have simplified the calculations by treating 'rates affordability' as a single and shared issue. It is not clear what the problem is therefore the calculations proposed are not clearly defined and may not align with intended outcomes.

The generic economic indicators do not match that of costs associated to infrastructure, labour and borrowing costs. The proposed method would lead to underfunded essential services which in due course the risks could lead to loss of life.

Allowing for exclusions, particularly with vague or interpretive definitions would only cause inconsistent application among councils.

B. Central Government's decreasing contribution to local government

Reductions in central government funding have placed increasing strain on councils' ability to maintain service levels without significantly raising rates or fees. In the Wellington Region, the impact is particularly pronounced in public transport. Under the current National Land Transport Programme (NLTP), approximately $134 million in funding requests for Greater Wellington's public transport services and infrastructure for the 2024–27 period was declined. This creates direct and compounding pressure on regional rates and fare structures.

These funding shortfalls cannot be absorbed within a capped rates environment. Imposing a strict rates cap on top of declining central government investment creates a structural imbalance that is impossible to sustainably manage without degrading services, delaying renewals, or shifting disproportionate costs onto users. Over time, this will result in higher long-term costs for ratepayers and communities, as reactive investments replace planned, efficient asset management.

C. Rising Costs Driven by Central Government Reforms

Central government reforms, particularly those related to water services, natural hazards, environmental regulation, and planning, have placed substantial cost burdens on councils. These reforms often require councils to fund significant transitional work, systems changes, specialist roles, legal advice, community engagement, and new compliance functions.

Greater Wellington has spent approximately $20 million on the Three Waters/Local Water Done Well transition alone, despite only being responsible for bulk water supply. Territorial authorities, responsible for drinking water, stormwater, and wastewater, have faced far greater

costs. When reforms are reversed, delayed, or redesigned (as has occurred repeatedly) the sunk costs fall entirely to local ratepayers.

In conjunction with this proposal is the Simplifying Local Government Proposal. In particular the proposed 'stage 2' of developing regional reorganisation plans, and then the subsequent reorganisation, which will need to be funded from somewhere (from Councils as we understand it). This will be another cost pressure that rates capping would make more challenging for Local Government. Timing of when rates capping would come into effect alongside when we will have to incur the costs of implementation (of whatever decision eventuates) from the Simplifying Local Government proposal, as well as from implementing the new Resource Management bills or the Emergency Management bill is a concern.

Under the Local Government (Rating) Act 2002 (LGRA), councils can allocate costs to beneficiaries through targeted rates. However, it is not equitable for ratepayers to be left carrying the financial burden of ongoing central government policy shifts. If the intent is to constrain rates increases, then implementation of reforms driven by central government should be fully funded by central government to avoid eroding councils' ability to invest in core services.

D. Review the Local Government (Rating) Act 2002

The LGRA restricts councils to a narrow set of revenue tools, which are increasingly inadequate for modern infrastructure, resilience, and service demands. Despite expectations to fund more complex and costly functions, councils must do so "fairly and equitably" without access to robust data on household wealth or ability to pay. This creates inherent inequities and assumptions, particularly in areas experiencing demographic shift.

A further challenge is the large and growing proportion of non-rateable properties, especially those owned for religious or central government purposes. These properties often occupy high-value land yet contribute nothing to the rating base, shifting the costs of essential services onto a shrinking pool of ratepayers.

A comprehensive review of the LGRA (including exemptions, revenue tools, and modernised principles of rating equity) is now overdue.

E. Rating Units vs Per Capita: Why Per-Capita Models Do Not Work for Council Funding

Rates are calculated based on rateable units and their assessed property values—not the number of people living in a district or region. A per-capita model (or any rates-cap methodology tied to population) does not reflect the legal, economic, or operational structure of local government funding in New Zealand.

This misalignment has several critical implications:

i. Service Costs Do Not Scale with Population

Many regional council services—public transport infrastructure, flood protection, environmental monitoring, biosecurity, coastal management—have high fixed costs that do not decrease when population is smaller or increase proportionally when population grows.

ii. Infrastructure Is Built for Risk, Geography, and Asset Condition—not Population

Stopbanks, rail corridors, reservoirs, water-treatment capacity, hazard-management activities, and regional parks all require investment driven by asset condition, environmental risk, safety requirements, and regulatory standards, rather than by per-capita demand. These functions must be maintained and upgraded based on physical risk, compliance obligations, and asset performance, not just on the number of people living in the region. NB water reservoirs and treatment plants are also driven by population growth otherwise we wouldn't be building more dams at Kaitoke

iii. Regional Councils Serve Spaces, Landscapes, and Networks—not Just People

Territorial authorities primarily serve households and the local services that support them, whereas regional councils are responsible for managing river systems, transport networks, coastlines, environmental assets, catchments, and biodiversity systems—functions with cost drivers that are largely unrelated to population size. At the same time, regions with extensive areas of national parks, DOC estate, Māori freehold land, religious and charitable properties, Crown land, educational institutions, and transport corridors have fewer rateable units and therefore significantly smaller revenue bases, even where populations are high. As a result, a per-capita rates model would fundamentally misalign with how regional councils are funded and would unfairly constrain their ability to meet statutory obligations and maintain essential regional services.

iv. Limitations of a Per-Capita Approach for Rural Councils

A per-capita rates model would unfairly disadvantage rural and small-town areas because they have fewer people but still need to maintain large areas of roads, rivers, flood protection, and environmental services. Councils are funded through property values and rating units, not population, so tying rates increases to the number of residents would leave rural communities without enough income to pay for the services they are legally required to provide. Also, these smaller towns often have a lot of visitors or tourists, both local and international. Its long been recognised but never fully addressed by government that these towns struggle with the additional load on their infrastructure that tourism places. A rates cap will in no way assist with this inequality.

v. Per-Capita Caps Ignore Who Actually Pays

Rates are paid by property owners, not individuals. Many residents do not pay rates directly, some properties house multiple people, and some owners hold several properties. Because property ownership and land value are unevenly distributed, with wealth concentrated in certain assets and locations, a per-capita formula would ignore the underlying distribution of property wealth that the rating system is designed to reflect and has no relationship to how rates are collected.

In short: A per-capita approach creates a structural mismatch with the rating system and the services councils provide, particularly for regional councils whose cost drivers are largely independent of population (except public transport).