

Submission to the Governance and Administration Committee on the:

## **Local Government (System Improvements) Amendment Bill**

Submitted by the New Zealand Council of Trade Unions Te Kauae Kaimahi

22 August 2025



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This submission is made on behalf of the 32 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (NZCTU). With over 340,000 union members, the NZCTU is one of the largest democratic organisations in New Zealand.

The NZCTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga), the Māori arm of Te Kauae Kaimahi (NZCTU), which represents approximately 60,000 Māori workers.

## Introduction

1. This is a retrograde Bill that will restrict local government’s ability to fulfil its important roles in supporting community decision-making and wellbeing. It reflects the current government’s rhetorical commitment to a very narrow conception of economic growth and an impoverished understanding of the sources of community wellbeing and the value of local democracy.
2. The rationale for the changes does not stack up. The government is claiming, without evidence, that the rising cost of rates in recent years has been driven by councils spending money on “nice to haves” rather than essentials. The government has not provided any systematic evidence that this is the case.
3. The NZCTU recommends the following elements of the Bill are cut:
  - Clauses 4 and 6: the change to the purpose of the Local Government Act (s 3) and the purpose of local government (s 10). Reference to the “four wellbeings” should be maintained throughout the Act.
  - Clause 5: the change to the definition of “community outcome” (s 5).
  - Clause 6: the requirement that local authorities must perform their functions in the “most cost-effective” manner (s 10).
  - Clause 7: the insertion of a new s 11A which lists a set of “core services” that local authorities must have regard to.
  - Clause 16: the repeal of the requirement to, when appointing directors, consider whether knowledge of tikanga Māori may be relevant to the governance of that council-controlled organisation (s 57).
  - Clause 18: the insertion of a new clause requiring that local authorities must have particular regard to the purpose of local government (amended s 10) and the definition of “core services” (new s 11A).
4. We endorse the submission of our affiliated trade union, the New Zealand Public Service Association (PSA), which represents thousands of local government workers around the country.
5. We comment in more detail on several aspects of the Bill below.

## The stated rationale for the Bill is weak

6. The government argues this Bill is necessary to reduce pressure on rates, which have increased significantly in recent years, contributing to the high cost-of-living. The government is claiming that rates have increased in part due to a “lack of fiscal discipline among councils”, which it argues is driven by spending on what it defines as non-core services. (The government is here attempting to draw a misleading distinction between essential services of local government and “nice to haves”.)
7. However, no data or analysis has been provided to demonstrate this is the case. In contrast, there is ample evidence that the main driver of rising rates has been the escalating cost of delivering civic infrastructure.
8. As noted in the DIA’s Regulatory Impact Statement, the vast majority of capital expenditure from local government goes towards infrastructure that the current government considers “core” – roads, public transport, water, etc.<sup>1</sup> Several factors have made this infrastructure more expensive to deliver.
9. The short-run problem is that construction costs skyrocketed over the Covid-19 period, due largely to the jamming of global supply chains and materials shortages. Civil construction inflation was a major component of overall inflation during this period, and far outstripped consumer price inflation (see Figure 1 overleaf).
10. From the end of 2020 to the end of 2023 – a space of just three years – overall civil construction costs increased 27%. The cost of constructing roads increased 27%, the cost of bridges increased 38%, the cost of drainage and sewerage increased 30%, and the cost of commercial buildings increased 26%. These are all key pieces of infrastructure that local governments are involved in funding and delivering.
11. In addition to rising capital costs, the period of high inflation also put pressure on local government operating costs due to rising labour costs (wages attempting to keep up with inflation). Finally, the end of the low-rate environment from late-2021 onwards has also increased debt-servicing costs for councils.<sup>2</sup>
12. Over the longer run, as numerous reports have pointed out, the bigger problem is that we have underinvested in a lot of key infrastructure in New Zealand for years. This historic underinvestment is now creating very expensive repair and renewal bills for councils.<sup>3</sup> The current government has actively made it more difficult for local government to address some of these issues, particularly with its repeal of the “Three Waters” legislation of the previous government.
13. It should be noted that this underinvestment problem is not the result of councils spending the money they have on other, “non-core”, goods and services. It is instead consistent with

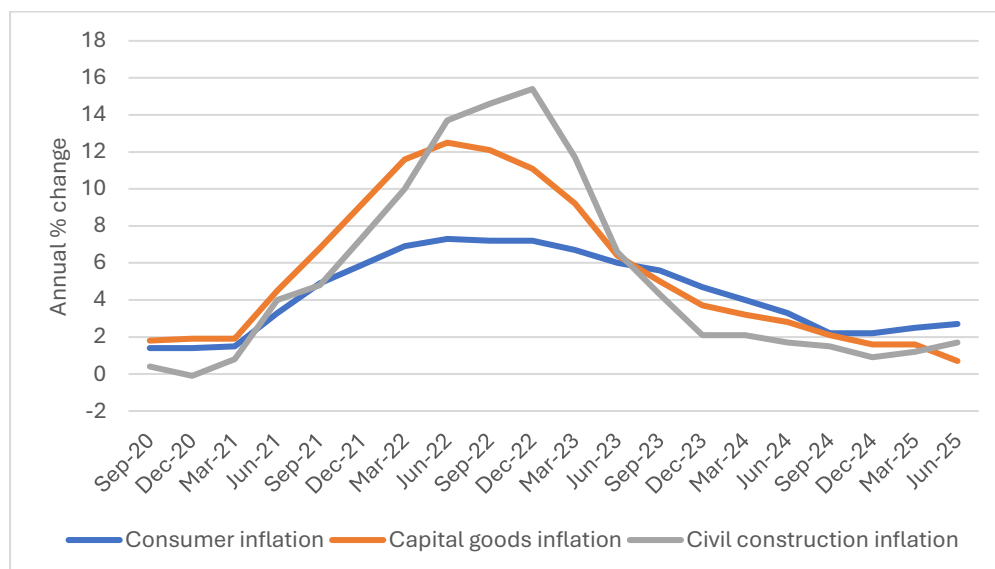
<sup>1</sup> Department of Internal Affairs, ‘Regulatory Impact Statement: Refocusing the Purpose of Local Government’, 31 October 2024, p. 5.

<sup>2</sup> Infometrics, ‘Analysing Increases in Local Government Costs’, Report for Local Government NZ, 2024.

<sup>3</sup> See Sense Partners, ‘New Zealand’s Infrastructure Challenge: Quantifying the Gap and the Path to Close It’, Report for NZ Infrastructure Commission, 2021; NZ Infrastructure Commission, *Draft National Infrastructure Plan*, 2025; Review into the Future of Local Government, *He Piki Tūrangā, He Piki Kōtuku; The Future for Local Government*, 2023.

a wider failure of government – both local and central – to sufficiently maintain our infrastructure assets since the 1990s. Doing so would have required higher property rates and general taxation over these years.

Figure 1: Inflation indexes



Source: Statistics NZ

14. In addition to the underinvestment problem, many councils are facing increasing challenges in providing climate resilient infrastructure and have also had to deal with rapid population growth in some areas in 2023 and 2024.
15. Finally, as the Infrastructure Commission has recently highlighted, New Zealand also has a quality problem when it comes to infrastructure investment. The Commission’s research suggests that New Zealand ranks in the bottom 10% of the OECD in terms of the efficiency of our infrastructure spending. In other words, New Zealand has been building less efficient infrastructure than other countries who spend similar amounts. Part of the reason for this is precisely our underinvestment in maintenance and renewals, which makes for a more expensive bill in the long run.<sup>4</sup>
16. Policy decisions should be based on careful analysis of evidence. The evidence points clearly to the rising cost of infrastructure as the driver of rising rates, not a supposed “lack of fiscal discipline” or focusing on non-core areas from councils.

## Poor policy development process

17. The policy development process has been rushed, with little consultation taking place beyond central government agencies. As a result, as the DIA notes in its Regulatory Impact

<sup>4</sup> NZIC, *Draft National Infrastructure Plan*, p. 21. This report provides a comprehensive set of reform options to address this efficiency deficit in our infrastructure.



Statement, “The data and evidence used in carrying out this analysis was generally low-quality due to limitations on options exploration and consultation”.<sup>5</sup>

18. The DIA notes that the quality of the analysis could have been improved if more time were given to officials so they could conduct a proper Tiriti o Waitangi analysis, consult with parties other than government departments, collect more data on the issue, identify alternative policy options, and consult with councils and other sector representatives.
19. This rushed process and lack of consultation is especially disappointing given that government has received clear advice in the past that it needs to improve its understanding of local government and closely collaborate with councils in identifying how to improve the system. In a 2020 report, for example, the Productivity Commission noted that:

*Central government agencies need to significantly improve the quality of their analysis when they are developing policies and regulations that affect local government. This will require better analysis of the problem and the range of options for fixing it, of how things will be implemented on the ground, what they will cost and how they will be funded. And it requires better consideration of the diversity of council circumstances.*

*A genuine co-design approach is essential to developing workable solutions that will stick. This will require more constructive engagement, earlier in the policy process. Government agencies need to ensure that small and remote councils can participate in the dialogue, being mindful of their resource constraints.*<sup>6</sup>

20. The current Bill is notable for having been developed in precisely the opposite manner to that recommended by the Productivity Commission.

## **The purpose of local government**

21. The NZCTU strongly opposes the changes to the purpose of local government this Bill makes.
22. Section 10 of the Local Government Act 2002 sets out the purpose of local government as:
  - (a) *to enable democratic local decision-making and action by, and on behalf of, communities; and*
  - (b) *to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.*
23. The Bill currently before select committee seeks to replace this with a far narrower vision of local government’s purpose. Specifically:

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

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<sup>5</sup> DIA, ‘Regulatory Impact Statement: Refocusing the Purpose of Local Government’, pp. 2-3.

<sup>6</sup> NZ Productivity Commission, *Local Government Insights*, 2020, p. 29.

*(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).*

24. In addition, the Bill requires local governments to “have particular regard to the contribution that the core services make to its communities”, with these core services being network infrastructure; public transport services; waste management; civil defence emergency management; and libraries, museums, reserves, and other recreational facilities.

25. The NZCTU strongly opposes these changes. First, the removal of the “four wellbeings” and their replacement in 10(b) with the far more restrictive list of local infrastructure, local public services, and performance of regulatory functions is in direct contradiction to the purpose of enabling democratic local decision-making, as set out in 10(a). In combination with clause 7 of the Bill, which sets out the expectation that local governments must “have particular regard to the contribution that the core services make to its communities”, this circumscribes what local decision-making should focus on, narrowing the scope of local democracy.

26. This risks damaging our democratic culture over the longer term. Councils serve as a very tangible site of democracy for many New Zealanders, where individual and community involvement in political decisions is palpable. The power to decide what a council should be focusing on and the level of rates it needs to deliver its services should fundamentally remain at the level of locally elected representatives who are accountable to the communities who elect them.

27. Second, there are legitimate and important reasons for local government to have a strong role in supporting social, environmental, economic, and cultural wellbeing. The idea that supporting local economic growth and development is a higher priority than other areas of wellbeing is simply misguided.

28. From a values perspective, economic development, social connection, environmental health, and culture and arts are each as important as the others. But even if we were to take the narrow view that local economic development should be prioritised over all else, it would be counterproductive to devalue these other areas of council activity. The reality is that social connection and cohesion, environmental sustainability, and vibrant arts and culture all contribute significantly to enabling economic development in the first place.

29. Fulfilling this broader mandate requires local government to foster and deliver services beyond those that the Bill defines as “core”. For example, it can require community outreach programmes, environmental protection and restoration initiatives, public events, arts and culture development, volunteer programmes, community safety, social housing, and climate adaptation work, among other things. The Bill relegates these critical services to the status of secondary, “nice-to-have”, functions of councils. This is a mistake.

### **“Most cost-effective”**

30. The Bill requires local governments to carry out their functions “in a way that is most cost-effective for households and businesses”. This is another narrow-minded amendment and can be expected to have negative impacts on the quality of council services over time.
31. It is unclear if the government intends “most cost-effective” (which can be read, another way, as “least cost”) to be the sole criterion on which council decisions should be based. We encourage the select committee to seek to clarify this issue.
32. If “most cost-effective” is intended as the sole criterion, this will be deeply problematic. It will mean councils are expected to prioritise service delivery options that are cheaper, even if they might not be high-quality, resilient, or socially and environmentally sustainable.
33. It may also increase the pressure on councils to privatise services, on the basis that they can be delivered cheaper by a private firm in the near term, even though the quality of service may substantially decline. The history of privatisation of public assets and services in New Zealand is a sorry one. Privatisation has tended to lead to degraded assets (e.g., the rail system) the abuse of market power causing higher prices for consumers (e.g., the electricity sector), poor service delivery (e.g., privatised bus systems), and worse employment outcomes (across many sectors).
34. The NZCTU is extremely concerned that this clause will also lead to the erosion of working conditions and wages of workers employed by local government. A simple way for private competitors to compete is to pay lower wages and provide inferior working conditions.
35. Finally, this clause may also undermine the ability of councils to deliver equal opportunities. For example, it may incentivise local government to ignore or consider secondary the regressive distributional impacts that user-pays fees on network and social infrastructure (roads, swimming pools, water, etc) have.

### **Ministerial oversight and rates capping**

36. The NZCTU opposes the extension of Ministerial powers enabled by clause 21. Ministers will now be able to recommend Orders in Council that prescribe parameters for local councils in how they are to perform and report on certain activities. This is another case of central government overreach into the affairs of local government. Communities need to have the flexibility to determine what local priorities are and how these priorities should be delivered.
37. This element of the Bill is explicitly intended to support rates capping in the future. The government has announced it is developing a proposal for rates capping, and the Explanatory Note to the Bill states that these amendments are intended to encourage local government to adopt practices consistent with a capping system.
38. The NZCTU is strongly opposed to rates capping. It will make it more difficult for councils to meet the needs of the communities they serve. It will encourage councils to privatise assets

as a means of raising revenue. And it will do nothing to address the principal issue driving rates increases, which is the rising cost of infrastructure.

39. Capping rates in effect assumes that the level of expenditure at a given point in time is about “right” (or too much). But there is no “right” level of local (or central) government spending. The quantum of government expenditure instead reflects value judgements about what is/isn’t important and democratic preferences around the level and quality of public services. Naturally, these value judgements and preferences are often contested and may be different across time and place.
40. In addition, local authorities need the flexibility to adapt spending to deal with different economic conditions. A private provider of an important service may go bust, necessitating that local government steps in to take over provision of that service. If it is fiscally constrained it will not be able to do so. In another situation, a previous council administration may have underinvested in certain infrastructure, creating a deficit that needs to be addressed by a new administration. The new administration would need the ability to increase revenue to close this deficit.
41. Rates capping is also a direct curtailment of local democracy, as it restricts the ability of local communities to determine how much they want to invest collectively back into the community. Ultimately, what a council chooses to focus on and the level of revenue it collects to deliver these services are matters that should be determined through the process of local democracy – that is, in the election and holding-to-account of mayors and councillors.
42. This over-reach from central government is particularly concerning in the context of the pressure that local democracy is already under. Voter turnout at local elections has fallen over recent decades, multiple councils struggle to find enough candidates to stand for office, and many councils are struggling to meet the needs of our increasingly diverse communities. We need to be replenishing local democracy by enabling local communities more latitude to shape their own future. By making the Local Government Act even more narrow and prescriptive, this Bill takes us in the opposite direction.

## **Chopping and changing**

43. The Local Government Act has been continually amended over the past decade. The “four wellbeings” were removed in 2012 by the fifth National government and replaced with similar wording to the current Bill. They were then reinserted by the sixth Labour government in 2019 to return the Act to its original purpose. Now the sixth National government is once again changing the purpose.
44. This chopping and changing needs to stop. As the Review of Local Government noted in its 2023 report, “Councils will never be able to give full effect to their purpose if it is subject to regular change”.<sup>7</sup> The government should focus on developing a bi-partisan consensus – in

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<sup>7</sup> RFLG, *The Future for Local Government*, p. 28.



consultation with local government – on the purpose of the Local Government Act so that the role of local government is clear and lasting.

## **Appointing directors**

45. We oppose clause 16, which repeals the requirement that “When identifying the skills, knowledge, and experience required of directors of a council-controlled organisation, the local authority must consider whether knowledge of tikanga Māori may be relevant to the governance of that council-controlled organisation.”
46. This is by no means an unreasonable requirement to have regard to in appointing directors. Aotearoa New Zealand is bi-cultural country, of which tangata whenua are a growing proportion of the population. In local authorities with high Māori populations, it may be particularly important for a director to understand tikanga Māori to effectively do their job and serve the community.
47. This repeal is another example of non-evidenced-based policy that leans into culture war rhetoric. Removing the requirement to consider familiarity with tikanga simply does not make sense from either a principled or practical perspective.

## **Addressing the real problem**

48. As noted above, the government argues this Bill is necessary because councils have supposedly been undisciplined in their spending in recent years. As we noted above, there is no compelling evidence to support this claim.
49. What the Bill fails to do is address what is the underlying problem: for years, the demands on councils have been increasing without the revenue to match it. This is being exacerbated by the rapidly rising cost of delivering infrastructure and the growing complexity of many communities.
50. This relationship between central and local government needs to be improved. The NZCTU recommends that, in addition to developing a bi-partisan view of the role of local government – i.e., not chopping and changing the Act with every change of government – a central–local government accord should be developed that clearly delineates the responsibilities of central and local government and how funding will be found to deliver local government responsibilities.<sup>8</sup> This accord should be developed through close collaboration between local and central government. Genuine co-design is essential to ensuring this accord is fit for purpose and enables effective democratic structures at the local level.

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<sup>8</sup> We note that the Review into the Future of Local Government report from 2023 provides a range of options for how local government funding could be improved (see pp. 54-62).

## Conclusion

51. The NZCTU reiterates its opposition to the substantial changes this Bill will make to the Local Government Act.
52. This Bill sets undue restrictions on the exercise of local democracy and the ability of local governments around the country to perform their roles not just in supporting economic development but also social connection and cohesion, environmental sustainability, and arts and culture.
53. The government is attempting to sell this Bill as necessary to prevent ill-disciplined spending from local government. The government has not provided any systematic evidence that this is the case. It is trying to scapegoat local government for cost-of-living pressures and to cash in on culture war discourse.
54. This Bill will not fix the funding challenges facing local government. Local governments around the country will continue to face increasing fiscal pressures from large infrastructure deficits, growing populations, increasingly complex social needs, and the challenges of climate change and adaptation, among other things.
55. The NZCTU thanks the Governance and Administration Committee for their time and the opportunity to submit.

## For further information, please contact

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