NZCTU Te Kauae Kaimahi

Submission to the Department of Internal Affairs on the:

Consultation on a rates target model for New Zealand

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

5 February 2026

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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.

Executive summary

1. The NZCTU strongly opposes the proposed rates capping system for the following reasons:
    - The policy is being rushed through without proper analysis of the causes and potential solutions to rates inflation.
    - It will force councils to cut back on the provision and quality of some services, with regressive consequences, as lower-income groups are more likely to use council services.
    - It will incentivise councils to increase user-fees for services, with regressive distributional impacts as lower-income groups are more likely to use council services and must pay a greater proportion of their income on any accompanying user-fees.
    - It will incentivise councils to sell off community-owned assets, with adverse long-term consequences for councils' balance sheets.
    - It will make it harder for councils to close the infrastructure deficit and to prepare their communities for the impacts of a rapidly changing climate.
    - Because it will lead to increased user-fees, privatisation, and underinvestment in key infrastructure, it is unlikely to reduce cost-of-living pressures for households over the long term.
    - It diminishes local democracy by constraining communities' ability to determine the level of services and infrastructure they want their council to provide.
    - The proposed target band for the rates cap, while preferable to a hard cap, is too restrictive.
2. This submission sets out the NZCTU's key concerns with the proposal to cap rates and provides feedback on the proposed rates target model.
3. The NZCTU registers its disappointment that the Public Service Association Te Pūkenga Here Tikanga Mahi (PSA) was not invited to be part of this targeted consultation. The PSA represents approximately 12,000 local government workers and therefore has a significant stake in these issues.

Problem analysis

4. The government has decided to impose a rates capping scheme as part of its broader suite of local government reforms.

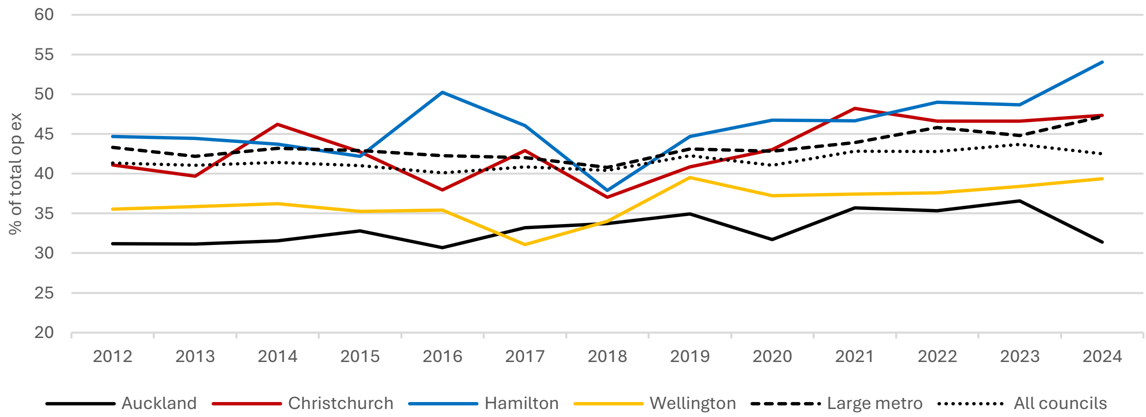
5. As with the Local Government (System Improvements) Amendment Bill, the rates capping scheme is being justified by the sponsoring Minister on the basis that rates increases have been unsustainable in recent years and this is in part because councils have "lacked fiscal discipline", spending money on "nice to haves" rather than "the basics".[1] According to Minister Watts, rates capping will force councils to "live within their means, focus on the basics and [be] accountable to their communities".[2]

6. The available data does not support the government's claims. According to the Statistics NZ time series data on local authority income and operating expenditure by activity, the composition of council operational expenditure has not changed much in recent years.

7. As Figure 1 shows, the proportion of operating expenditure that goes towards "the basics" of transportation, water, and waste services has been relatively stable since 2012. As expected, given the age of our water systems, water supply and wastewater expenditure has tracked up slightly as proportion of total expenditure. The proportion of expenditure on solid waste has also increased slightly, while roading and transportation expenditure has been relatively steady.

8. Looking at the large metro councils, other major areas of core council spending, such as on culture, recreation and sport, and planning and regulation have seen only small fluctuations during this period.

Figure 1: Percentage of total operating expenditure on roading and transportation, water supply and wastewater, and solid waste/refuse, 2015–2024. Statistics NZ, table LAF003AA.



9. If excessive spending on "nice to haves" was driving rates inflation, then the proportion of operating expenditure that goes towards core services such as transport, water, and waste should have fallen; this is not visible in the data.

[1] Russell Palmer, 'Local democracy under threat? Officials warn against removing council "four wellbeings"', *RNZ*, 18 July 2025; Hon Simeon Brown, 'Government getting local government back to basics', *Beehive press releases*, 16 December 2024.
[2] Hon Simon Watts, 'Getting rates under control for ratepayers', *Beehive press releases*, 1 December 2025.

10. We do not have good time series data on capital expenditure. However, the data we have for 2024 indicates that most councils spent more than two thirds of their capital investment that year on roading or three waters infrastructure. This is shown in Table 1.

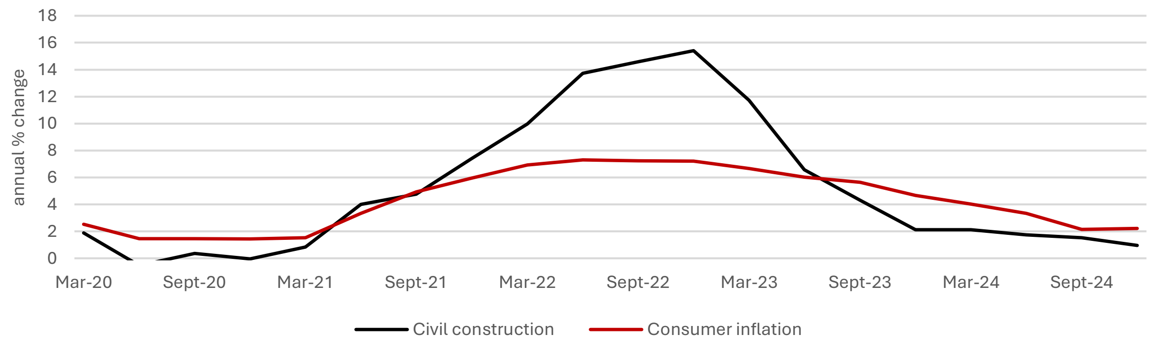
Table 1: Percentage of total capital expenditure by category, council groupings, 2024. Department of Internal Affairs. Note the data below excludes expenditure on flood protection.

	Roads	Three waters	Other
Auckland	23.1%	40.7%	36.2%
Large metro average	32.7%	34.1%	32.6%
Unitary group average	36.3%	28.7%	27.3%
Small metro/large provincial average	32.9%	38.4%	28.7%
Small provincial/rural average	39.6%	37.0%	22.1%

11. These observations throw doubt on the claim that a lack of fiscal discipline is driving rates inflation. Instead, what the available data suggests is that rates inflation has been driven to a significant extent by the rising cost of delivering civil infrastructure and public services and the catch-up cost associated with closing the infrastructure deficit.

12. Local government is responsible for around a quarter of New Zealand's infrastructure portfolio (measured by dollar value), with this concentrated in roading, water, waste services, some social housing, and buildings like libraries and sports facilities.[3] As Figure 2 shows, during the recent inflationary period civil construction inflation was very high and ran significantly above consumer inflation for several years. From 2020 to 2024, overall civil construction costs increased 28%, with the cost of constructing roads rising 26%, bridges 36%, drainage and sewerage systems 32%, water supply systems 29%, and non-residential buildings (e.g., libraries and sports facilities) 28%.

Figure 2: Annual civil construction and consumer inflation, 2020–2024. Statistics NZ.



13. Looking back over the past decade, we see the cost of this infrastructure has been rising at a faster rate than consumer inflation for some time. From 2015 to 2025, the consumers price index increased 34% while civil construction costs increased 42%. The cost of building three waters infrastructure – which is some of the most dilapidated civil infrastructure in New Zealand – has increased particularly steeply, with water supply systems increasing 53% in cost and drainage and sewerage systems 57%.

[3] Infrastructure Commission, *Build or Maintain? New Zealand's Infrastructure Asset Value, Investment, and Depreciation*, 1990–2022, 2024.

14. In addition to this, councils have experienced steeply rising debt-servicing costs over the last couple of years, as interest rates moved off historic lows. For example, Wellington City Council's net interest expense (the interest it pays less the interest it earns) as a percent of rates revenue increased from 7% in 2020/21 to 12% in 2023/24.

15. Ongoing insurance cost inflation is also contributing to the fiscal pressures councils are under, and therefore to increased rates bills for households.

16. A final notable driver of rates increases has been the catch-up investment necessary to close our infrastructure deficit. As has been laid out in numerous reports,[4] both central and local government have underinvested in a lot of key infrastructure in recent decades. The lack of investment in maintaining and renewing infrastructure meant that rates have been held artificially low in many parts of the country for many years. This historic underinvestment has created a very expensive repair and renewal bills for councils, which has now come due; this requires rates revenue to rise.

17. In short, the available data does not support the government's claim that a lack of fiscal discipline among councils is driving rates inflation. Instead, it indicates rates inflation is being driven by a set of systemic and largely unavoidable cost pressures for local government, which will not be alleviated by capping rates.

18. We note that this misalignment between the stated problem, the evidence, and the Minister's preferred solution is explicitly acknowledged in the Minister's Cabinet Paper of 12 November 2025 (para 49).

19. In the Cabinet Paper it is also noted that the Regulatory Impact Statement was prepared within a compressed timeframe, meaning there was insufficient time to "identity and address all issues required to produce a coherent final document" (para 50); no public or stakeholder consultation was undertaken on the policy decisions (para 50); and the potential for the Minister's preferred option "to achieve the stated objectives and avoid identified risks is highly uncertain" (para 53).[5]

20. We find it troubling that this radical change is being progressed in full knowledge that there has not being a proper analysis of the problem and its potential solutions.

21. The NZCTU recommends that before any further progress is made with this reform a full analysis of the problem and its potential solutions should be undertaken, in consultation with the public. This analysis should consider how the different pieces of the government's local government reforms fit together, including the amendments to the Local Government Act, the rates capping proposal, the resource management reforms, and the establishment of the new Ministry of Cities, Environment, Regions and Transport.

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[4] For example, 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 Tūranga, He Piki Kōtuku; The Future for Local Government*, 2023.

[5] Hon Simon Watts, 'Cabinet Paper: A Rates Target for New Zealand', 12 November 2025.

Adverse impacts of rates capping

22. The NZCTU expects that rates capping will lead to a degradation of some council services and assets over time, as councils will not have the revenue base to adequately fund them. This issue is foreshadowed in the Minister's Cabinet Paper of 12 November (para 44), where it is noted, "There is also likely to be a shift in the types of services and service levels that councils deliver" as a result of rates capping.[6] The adverse effects on service delivery is also acknowledged in the RIS.[7] And the government is well aware of the wealth of evidence from New South Wales on the deleterious effect that a rates cap has had on the financial sustainability of local government there.[8]

23. To offset the fiscal pressures created by a rates cap, councils will almost certainly increase the use and cost of user-fees for many council services – for example, waste disposal and the use of community facilities such as swimming pools. This means that some or all of the savings experienced by households in the form of lower rates inflation will be eaten up elsewhere.

24. User-fees for public services are regressive. Those with ample financial resources are both less likely to use council-provided services and better positioned to continue to use them even if prices rise. Those with more limited means are both more likely to use council-provided services and less able to continue to use them as prices rise. This is explicitly noted in the RIS, which states that "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".[9] This includes not just low-income citizens but also superannuitants and young families. Importantly, many of these people are not property-owners and will therefore not see *any* cost benefit in the reduction of rates inflation.

25. The fiscal pressures created by a rates cap will also incentivise councils to sell community-owned assets in order to raise revenue for new infrastructure (or for the maintenance of existing infrastructure). Privatisation of council-owned assets often has negative fiscal implications over the long-run for a council. More immediately, it typically leads to higher costs, and/or lower service levels for users of those assets, as private providers are concerned with profitability first and foremost. As with the likely increase in user-fees, privatisation of assets will therefore offset any savings for households delivered by a rates cap.

26. Rates capping will also reduce the flexibility of local authorities to adapt spending to deal with changing economic or political conditions. For example, in situations where a private provider of an important service (such as a public transport service) goes bust, local government sometimes needs to step in to take over provision of that service. If that administration is fiscally constrained by a rates cap it will find it more difficult to do so – under the government's proposed model it will have to apply to a regulator for an

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[6] 'Cabinet Paper: A Rates Target for New Zealand'
[7] Department of Internal Affairs, *Regulatory Impact Statement: Rates Capping*, 5 November 2025, p. 3.
[8] Department of Internal Affairs, *The New South Wales Rate Peg System*, November 2024.
[9] *Regulatory Impact Statement: Rates Capping*, p. 3.

exemption. 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 that deficit (as has been happening across many councils in recent years) but would find itself unable to do so because of the rates cap – again, it would have to apply to the regulator for an exemption, which will likely be costly and time-consuming.

27. We are further concerned about the interaction between rates capping and the pending reforms to the resource management system. Under the new resource management acts, local governments will be required to compensate landowners for any “significant” restriction on the use of their land. Because rates capping will increase the fiscal pressure councils are under, it could incentivise councils to allow the reckless or harmful use of private land so as to avoid potentially having to pay compensation to a landowner for the curtailment of that activity. This issue needs to be explored further by officials in the analysis of the potential costs of the proposed rates capping system.

28. Rates capping will also make it more difficult to close the infrastructure deficit over the coming decades. Although water charges are exempt from the proposed rates capping model (which again will offset any expected savings for households), other council-owned infrastructure is not. And over the long-run, failure to close the infrastructure deficit will cost the country in lower economic productivity and output and lower quality of life for the affected communities.

29. Finally, the challenge of adapting local infrastructure to climate change will add even more pressure to council budgets in the near future. We have seen in just the last couple of years how regular extreme flooding is becoming in New Zealand, particularly in the North Island. As the flooding events in January 2026 show, we do not have the civic infrastructure in place to cope with this. Capping rates will make it far more difficult for councils to provide this climate-resilient infrastructure. Over the long run, this will mean higher costs for both local and central government in the form of disaster relief payments and lost economic output, not to mention likely loss of life. In this respect, any savings from the rates cap will once again be offset.

Further narrowing the scope of local government

30. The NZCTU views the imposition of a rates cap as a further curtailment of local democracy. It restricts the ability of local communities to determine how much they want to invest collectively back into the community.

31. Rates capping in effect assumes that the level of expenditure at a given point in time is about “right”. But there is no “right” level of local (or central) government spending. Rather, the quantum of government expenditure instead reflects value judgements about what the community considers important and 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.

32. 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 – in the election and holding-to-account of mayors and councillors.

33. By boxing councils into a narrow band, as the proposed rate capping model will do, local democracy is undermined. Ironically, then, while the Minister has stated that "Ratepayers deserve councils that [...] are accountable to their community", rates capping will actually make councils *less* accountable to their communities by placing tighter fiscal restraints on them.

The proposed rates capping model

34. The government is proposing that rates will be capped within a target range of between 2–4% per annum. The bottom of the range has been chosen because it is near – though actually slightly below – the long-run average for consumer inflation (if one excludes the COVID-19 period) while the top of the range has been chosen because it is near the long-term average for nominal per-capita GDP growth.

35. The NZCTU opposes rates capping. But if rates capping *is* imposed by the government, the NZCTU prefers a target range to a hard cap.

36. However, the proposed target range is too low and narrow and will unduly constrain councils' ability to provide the services their communities require.

37. The consultation document notes that the bottom of the range has been chosen because it reflects the minimum extra rates revenue per annum required for councils to maintain existing service levels. This is based on the misconception that the rate of consumer inflation reflects the rate of inflation experienced by local governments.

38. The consumers price index is designed to capture the inflation experienced by the "average" (i.e., fictitious) consumer. But councils do not experience cost pressures in the same way that the average consumer does. The average consumer and the average local government administration purchases vastly different baskets of goods and services. They therefore experience price changes in vastly different ways. This is well illustrated by the higher rate of inflation in civil construction costs compared to consumer inflation over the past decade, which we discussed above.

39. Additionally, even if it were true that the consumers price index was an accurate measure on which to base council cost-pressure assessments, 2% is not an appropriate floor as it is below the long-run average. The average annual increase in the CPI from 2000–25 was 2.6%.

40. The bottom end of the range is also below the long-run average in the labour cost index (LCI), which from 2000–2025 increased 2.4% per annum on average. If rates revenue does not keep up with wage increases in the broader economy, it will make it more and more difficult for councils to recruit and retain skilled workers. This will undermine councils' ability to deliver quality public services.

41. If the government wishes to use a price index to anchor the low end of the range, then it needs to develop a local government-specific index that accurately captures the price changes in the basket of goods and services that local governments on average are required to purchase. We understand that Sapere had previously constructed a local government price index for the Productivity Commission. This could be explored as an option. However, it also needs to be borne in mind that different councils have different infrastructure portfolios, and the costs of delivering infrastructure can differ from region to region due to, for example, differing seismic risks.

42. The top end of the range is also too low and will make it difficult for councils to respond to the many challenges they face. We have detailed the specific issues in the above sections.

43. In addition to the issues raised above it is important to note that different regions around New Zealand grow at vastly different rates on a per capita basis. Capping rates at a country-wide 4% will mean that regions that are growing faster than that rate are unable to ensure their council services keep up with that growth.

44. The 4% maximum will also constrain councils' ability to cope during inflationary shocks. Although it may be tempting to view the inflationary shock of 2020–23 as a one-off (which the consultation document appears to do, by excluding those years from the calculation of the average annual increase in the CPI), it is highly likely that inflationary shocks will be more common in the future.

45. The global economic system is undergoing a transformation. Geopolitical conflict is increasing, global supply chains are coming under intense pressure, energy prices are becoming more volatile, and climate change is causing extreme weather events that are affecting food production, among other things. These dynamics all make inflationary shocks more likely in the future, particularly in New Zealand which is a price taker in the global system.

46. We are pleased that water services are not covered by the proposed model, as this would make it impossible to close the infrastructure deficit in this area. However, we note that, as with user-fees increases, this will mean that any cost-of-living benefits for rate-paying households will be offset by increased water usage fees and targeted rates, again demonstrating that rates capping is not a real solution to cost-of-living issues.

Conclusion

47. The NZCTU reiterates its opposition to the proposed rates capping system. It will lead to a reduction in council services and infrastructure over time, and any benefits to rate payers in terms of lower rates inflation will likely be offset by rising user-fees and lower-quality services.

48. This will have regressive consequences, as the cost of higher user-fees and lower-quality services will be borne disproportionately by lower-income households. Many lower-income households are not property owners and therefore will not receive any financial benefit in terms of lower rates inflation.

49. If rates capping is brought in, then the target band of between 2–4% needs to be re-evaluated. It is too low and narrow and will put unsustainable fiscal pressure on local governments.

50. We also reiterate our concern that the government has not undertaken an adequate analysis of the causes of, and potential solutions to, rates inflation. Before any further steps are taken to cap rates, a full analysis of the problem and its potential solutions should be undertaken, in consultation with the public. This is particularly important in light of the other major reforms that are currently underway across local government and resource management.

51. We thank the Department of Internal Affairs for the opportunity to comment on this proposal.

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