

# Submission to the Department of Internal Affairs

## *Rates target model*

4 February 2026



### Introduction

The Timaru District Council (the Council) thanks the Department of Internal Affairs (DIA) for the opportunity to submit on the “Rates target model” proposal. We appreciate being included in the targeted consultation.

The contact person regarding the submission content is Nigel Trainor (Chief Executive), who can be contacted via [nigel.trainor@timdc.govt.nz](mailto:nigel.trainor@timdc.govt.nz).

Council endorses the submission made by Taituarā.

We note that this proposal is one of a suite of inter-linked and inter-dependent reforms which would, cumulatively, transform the form and function of the local government sector.

It is difficult to fully comment on these interdependencies because the reforms are at different stages of development. Based on our initial analysis, we deem that the Simplifying Local Government will likely reduce expense for councils (over the long term), making meeting a rates cap more achievable than would otherwise be the case. Simultaneously, rates capping will drive councils to seek greater efficiencies through this structural reform, such as shared services and amalgamations.

Resource management reforms, by contrast, appear likely to impose greater costs on the local government sector, making achieving a rates cap more difficult. There will be a tension between balancing any rates cap against a more enabling resource management system, and the effectiveness of the proposed development levies system will be unknown until this tension is resolved, especially as Timaru District Council does not currently levy development contributions. The scale at which the system will operate will be determinative, and it will take time – once the reforms have been implemented – to reveal the effect of this.

This submission is based on the information available at the time of lodging, and Council’s views may change as more information becomes available on this and the other reforms.

It is important that the government consider all of the reforms as a cumulative package, and – when making policy decisions on individual aspects – are cognisant of their inter-dependencies and potential flow-on effects to the other reforms.

## **Local government in the Timaru District**

The Timaru District Council is a local authority in the South Island serving over 50,000 people in South Canterbury.

The main settlement is Timaru, with other smaller settlements of Geraldine, Pleasant Point and Temuka. The district is - by population - the fourth largest in Canterbury, with approximately 8% of the total, and – by GDP – the third largest in Canterbury

## **General comments**

Council supports the concept of a regulatory tool to assist with disciplining local government spending, and to provide a degree of assurance to ratepayers about future levels of rate increases.

However, we oppose the rates target model in its current, proposed form because it is based on flawed analysis and does not accurately reflect the costs to which local government is exposed, nor community expectations. It carries significant risk, and is likely to lead to asset underinvestment and a decline in the basic, core services that drive the majority of council costs. Furthermore, the proposal is currently unlikely to achieve its main objective, namely to contribute to any meaningful reduction in cost of living pressures for ratepayers.

Our support for any rates target model is contingent on the following amendments:

- roading (including bridges) and stormwater activities being excluded from any model, in addition to transition costs related to the current suite of reforms;
- allowing and supporting local government to have comparable and sustainable finances prior to the introduction of any model;
- the model utilising appropriate formula which realistically factors in the costs that local government is exposed to which are needed to maintain sustainable levels of service for core activities; and
- reforms to the funding tools available to local government.

We strongly believe that a rates target model will not be successful without these amendments.

### *Council exercises fiscal restraint currently*

Council acknowledges that households face significant cost of living pressures, particularly in the high inflation environment of recent years. Council has been exposed to similarly high – and in many cases higher – levels of inflation.

Council adopts significant restraint to best meet community needs (including maintaining levels of service) and legislative requirements in a way that is deemed affordable.

The fiscal impact on residents is at the forefront of decisions about budgets, projects and rates increases. There is a core focus on value for investment and identifying how to maximise benefit for the community.

For example, Council currently has a rates increase limit of 7% per year, on average over the 10 year period of a Long Term Plan. This was adopted in the Financial Strategy within the 2021-31 Long Term Plan and reconfirmed in the 2024-2034 Long Term Plan.

Several initiatives have already been proactively taken to reduce expenditure given the relatively high rates increases in previous years. This includes a significant organisational restructure, bringing several activities ‘in-house’, and reducing the use of consultants.

Our fiscal constraint will continue to apply, with or without a rates target model.

*What is the problem? The key drivers of rates increases are not “nice to haves”*

The proposal’s problem definition appears to be that “unaffordable” rates increases are putting significant and unacceptable pressure on household budgets, and that this is being caused by local authorities spending beyond their means on “nice-to-haves”. The proposal’s rationale is seemingly that a rates target model will introduce sufficient discipline to force a focus on core services, with the important assumption there is sufficient money to properly fund core services under the proposal so long as there are fewer nice-to-haves. This problem definition and rationale is incorrect on multiple levels; the quality assurance section of the DIA’s regulatory impact statement also notes this.

Historically and New Zealand-wide, pressures on household budgets have been much more significantly driven by changes in central government tax policy (for example, bracket creep) rather than local government rate increases<sup>1</sup>. Rates have remained a relatively consistent proportion of the overall tax take.

Local government rates increases are not due to fiscal profligacy. Instead, the main drivers are, in no particular order:

- Unfunded mandates from central government; for example, changes to regulatory standards in drinking water and roading, road speed changes, audit requirements, the proposed regulatory relief provisions in the resource management reforms, and potentially requirements to meet rules set under the new emergency management reforms.
- Unsustainably low nominal rates due to increases over past decades being artificially low (below actual cost increases to local authorities, and in some cases below CPI),

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<sup>1</sup> <https://www.lgnz.co.nz/news/media-releases/drivers-behind-rates-rises-across-the-country-laid-bare/>

as stated by Treasury<sup>2</sup>; historically borrowing has covered the gap, but declining debt headroom means that this is no longer a sustainable option.

- Significantly high increases to the costs that local authorities are uniquely exposed to over recent years, for example concrete, bridges and engineering services; these increases have outstripped general inflation.
- A disproportionate amount of core infrastructure is approaching the end of their useful life, and now require costly maintenance or renewals; this is a consequence of the infrastructure boom approximately 80 years ago, and not adequately collecting depreciation over the life of the assets.
- The increasing frequency and intensity of severe weather events, necessitating local government led efforts to recover and support resilience efforts.
- Consenting costs for infrastructure.

Contrary to government belief, there are not so many expendable “nice-to-haves” that any cap could necessarily be met without decreasing the levels of service for core services.

For example, an analysis of 2024 capital expenditure found that the significant majority of local authorities (53 out of 67) spent at least two thirds of this expenditure on three waters, roading and flood protection<sup>3</sup>.

There has undoubtedly been inefficient spend in local government, like in central government or the private sector. However, this is not nearly to the extent – or as systemic – as the proposal suggests.

### *Ensure councils are on a sustainable and comparable financial footing prior to introducing a rates target model*

Currently, local authorities have varying degrees of financial sustainability and are at different levels of financial maturity. Some are borrowing to pay for expenditure because their rates are too low, or because they are recovering from natural disasters. Most do not fully recover depreciation costs, or have assets without up-to-date valuations. In short, they are not necessarily on a sustainable or comparable footing.

Council is concerned that a flat percentage cap will “bake in” any financial unsustainability and compound existing pressures on levels of service. It would also penalise councils that have historically been able to keep rate increases relatively low (such as Timaru District), whilst rewarding those that have had higher increases or not applied such prudence. This reward or penalty would also compound over time.

Prior to the introduction of any rates target model, there needs to be an adjustment period for councils to ensure that their finances are on a sustainable footing, and a mechanism to

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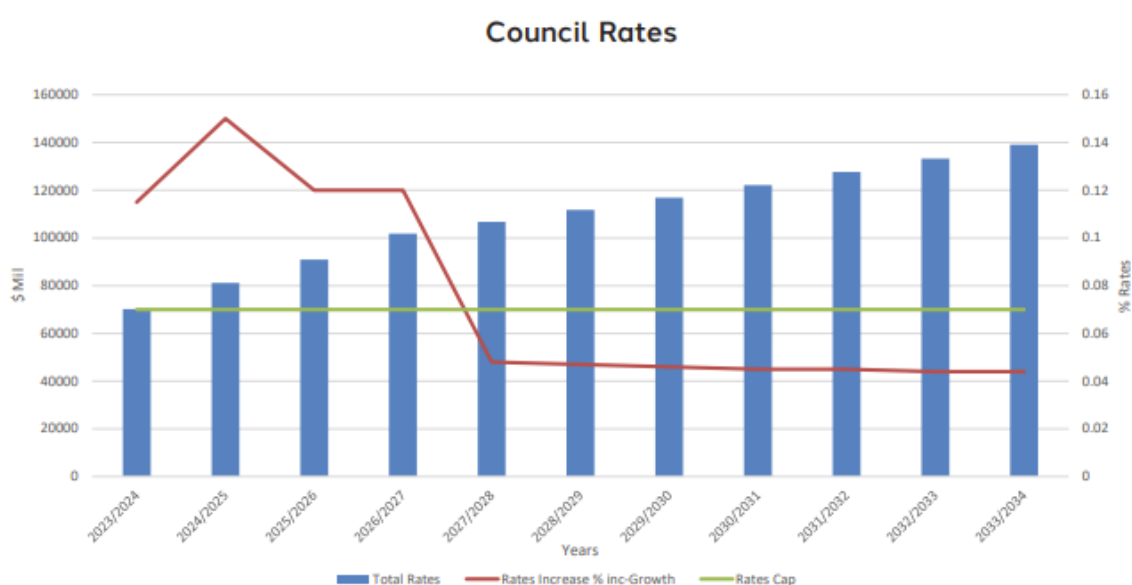
<sup>2</sup> <https://www.treasury.govt.nz/sites/default/files/2025-09/oia-20250547.pdf>, p. 3

<sup>3</sup> <https://www.rationale.co.nz/news/unpacking-council-benchmarking-capital-expenditure/>

ensure consistency in regard to, for example, depreciation and asset valuation. The audits of Long Term Plans, Annual Plans and Annual Reports can provide assurance that this is being undertaken responsibly and appropriately. This may necessitate slightly higher rates than currently forecast. Not ensuring such sustainability and a level-playing field will cause significant pressures and problems in future years for the sector.

In Timaru District Council's case, we are currently playing 'catch-up.' We have struck historically low rates for decades, resulting in having some of the lowest provincial rates in the country and requiring borrowing to fund asset renewals. The council's current rates path is designed to achieve a sustainable footing, including to account fully for depreciation. Council has had the option to effectively artificially engineer lower rate increases by not funding depreciation to such an extent, but determined that this would not satisfy inter-generational equity. Further, some Council assets have out-of-date property valuations, which directly impacts the amount of depreciation that needs to be collected and therefore the rates to fund this. Correcting this would be a priority for Council prior to the introduction of any rates target model.

Our Long Term Plan 2024-34 has factored in the majority of the required catch-up through initially high rate increases, and an increase in user pays via fees and charges. Rate increases are then projected to return to approximately the 4-5% level – being a level we consider broadly appropriate to enable levels of services to be maintained and most cost pressures absorbed – by 1 July 2027, well prior to the 1 July 2029 start date, as illustrated below<sup>4</sup>.



<sup>4</sup> [https://www.timaru.govt.nz/\\_data/assets/pdf\\_file/0020/910505/Timaru-District-Council-Long-Term-Plan-2024-34-FINAL.pdf](https://www.timaru.govt.nz/_data/assets/pdf_file/0020/910505/Timaru-District-Council-Long-Term-Plan-2024-34-FINAL.pdf), p. 110

We are concerned that the government may not permit this catch-up to occur, as per their statement that councils should revert towards the cap as soon as possible or risk regulatory intervention. Instead, the government should be encouraging and supporting councils to adequately prepare for any regulatory tool by having sustainable finances.

#### *Current rates affordability and community expectations*

When considering rates affordability and the impact of rates on household budgets, it is important to consider the actual nominal increase rather than just the percentage increase.

Council's rates are affordable relative to most local authorities. The Taxpayers Union undertake a Ratepayers Report which aims to provide transparency for ratepayers, with financial and rates figures presented on per household basis for comparisons between councils. For example, in the 2022 Ratepayers Report the average residential rate nationwide was \$2,644. Timaru District Council had an average residential rate of \$2,277 which is within the lower range of Councils across New Zealand (as calculated by the Taxpayers Union).

Importantly, this means that – compared to most other local authorities – Timaru District ratepayers face less strain on their household budgets due to rates, and that similar percentage increases compound less over the years.

Most residents appear to understand the pressures that drive their rates increases. A consistent theme in recent Long Term Plans and Annual Plans has been that, whilst relatively high rates increases are not desirable in an ideal world, they are preferable if the alternative are cuts in levels of service. For example, in the 2025/26 Annual Plan, when given the option to reduce levels of service in certain community facilities such as pools and libraries to save money and decrease rates, 75% selected to retain the status quo. Further, a key theme of many of our submissions on major projects has been: "It needs to be done, and there will never be a cheaper time to do it than now. Get on with it!"

#### *Roading and stormwater activities should be exempt from a rates targeted model*

Council considers that roading activities (which includes bridges) should be excluded from any rates-targeting model – consistent with the exclusion of water services – due to their fundamental role in enabling economic activity, access, and prudent stewardship of public infrastructure as required under the Local Government Act 2002.

Road networks are a core enabler of regional and national economic performance. Any model that artificially constrains investment in roading risks undermining economic growth, productivity, and access. This is particularly true in regions where there are limited alternative transport options.

From a prudent stewardship perspective, roading assets require ongoing, responsive investment to protect value, maintain network availability, and avoid the significantly higher costs associated with deferred maintenance and reactive renewal. A capped funding model would restrict councils' ability to manage these long-lived assets responsibly, respond to emerging pressures, and optimise whole-of-life costs.

Including roading within a rates-targeted model would create a structural imbalance in council decision-making, especially as it comprises such a significant percentage of our expenditure and is subject to some price volatility. It is highly likely, in this scenario, that local government would need additional funding from central government to meet funding gaps and retain levels of service.

As roading costs increase due to inflation, network ageing, climate impacts, and construction market pressures, councils would face a binary choice to either constrain investment in an economically critical network, or allow roading expenditure to disproportionately displace other council core activities, which are strongly valued by communities. Neither outcome supports efficient, locally responsive service delivery.

Further, roading already operates within a distinct national funding and oversight framework. Co-funding through NZTA applies investment discipline from the Minister for Transport through the Government Policy Statement, business case approvals, investment and technical audit requirements, and funding prioritisation. However, funding from the National Land Transport Fund fluctuates. When it reduces, as has occurred in recent years, rates funding is the only mechanism available to councils to fill the gap to give effect to the Minister's expectations and meet our Long Term Plan commitments.

Additionally, we similarly strongly believe that stormwater activities should not be included in any model (if it is not currently excluded; there is confusion within the sector on this point). Any inclusion of stormwater would undermine the objective of the government's Local Water Done Well reforms by risking underinvestment. Perversely, it would also subject the activity to double regulation (given that it is already able to be regulated through the Water Services Authority Taumata Arowai), creating uncertainty and the real concern that the two regulators have different and inconsistent requirements.

### *Impact of proposal on core services and economic growth*

It is important that central government understand that the current proposal carries significant risks for levels of service for core services and infrastructure. There is a real risk that cuts in levels of service (for example, maintenance and renewals) will need to be made for roads, bridges, community facilities and other core services because there will simply not be the money available to do this work.

There will be underinvestment relative to what is required to maintain or improve levels of service, as borne out by international case studies where a similar model was introduced. The cumulative effect year upon year of the cap will only compound the problem over time.

Certain core services may be protected more than others, for example if roading received less of a budget decrease than waste management. However, in general, there is likely to be a period of managed decline at varying rates of pace.

Further, at a time when the government is focused on a national infrastructure deficit, this proposal will simply increase it. Rather than catching up to support economic growth and productivity (which local government actions play a crucial role in<sup>5</sup>), the proposal in its current form will act as a handbrake. The local construction sector will likely be destabilised. The proposal is inconsistent with and does not support the government's wider agenda.

The community, and in particular those who are lower-income or vulnerable, will be disproportionately affected by the proposal. It is likely that local authorities will have to seek to increase revenue where possible, for example via fees and charges that are not subject to the cap. This will reduce public access and demand to community facilities such as pools, halls and libraries. Council has often considered there is a public good element to these facilities, hence being part subsidised from general rates historically.

The proposal would likely mean a lower rates take than forecast, creating less debt headroom and ability to borrow. For the same reason, it would also create decreased resilience to any economic shocks or natural disasters (noting that emergency management is a "core service"). It may also negatively impact our credit rating, which in turn would lead to higher borrowing and servicing costs. There would likely be less ability to pay off debt, and local government would be more vulnerable to changes in interest rates.

#### *Funding tool reforms and central government assistance to local government*

In order to help local authorities meet the target, central Government needs to do all it can to remove costs. The Simplifying Local Government proposal and resource management reform will assist with this, but further considerations about the right balance of cost of benefit for all central government requirements are needed, for example regarding auditing and consultation requirements.

Local government has long argued that its funding model is in significant need of reform, and that it needs more funding tools than predominately relying on rates and fees and charges. For example and most notably, Crown should pay rates on its properties within the district, should remove GST on rates, and should share GST from activities within districts with the relevant local authority.

Finally, we are in a period of significant reform for local government with significant costs being imposed by central government, for example to undertake the resource management reforms, the Regional Reorganisation Plan and any associated transition costs. These are likely to have high short term costs, with any benefits and savings only being delivered over

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<sup>5</sup> <https://www.lgnz.co.nz/news/media-releases/new-berl-report-demonstrates-councils-substantial-contribution-to-economic-growth/>



the longer term. By the government's own analysis, the initial costs to the local government sector could amount to nearly \$10 billion. Contrary to central government claims that resource management reforms will reduce costs to councils, it is likely to impose significant transition costs and likely regulatory relief costs (both of which are rates funded not currently factored into forecasts), and not create rate savings (as consents are primarily funded via fees and charges paid for by the applicant).

In order to ensure that the reforms can be implemented properly and in an orderly way – rather than be hampered by a restrained fiscal environment, the transition costs of these reforms should be explicitly excluded from any rates target model.

### *Other*

We note that official advice expresses doubts about whether the proposal is well considered or appropriate to reduce cost pressures for ratepayers. The Regulatory Impact Statement (RIS) itself identified local authorities as being subject to unavoidable cost pressures, and that – using its established criteria – the proposed targeted model is not likely to be, overall, beneficial relative to the status quo.<sup>6</sup>

We note that many local authorities will struggle to fund CAPEX out of depreciation over the short to medium term, because they have either not been rating for depreciation for long enough, or not actually breaking even and therefore effectively not saving the depreciation required to fund CAPEX.

### **Responses to consultation questions**

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

The CPI is a wholly inappropriate measure to use in the formula; Council does not purchase a similar basket of goods to households.

We note that, between 2021 and 2024, the costs to local authorities significantly outpaced CPI<sup>7</sup>. For example, bridges became 38% more expensive to construct, and road and water supply costs increased by 27%.

Further, BERL expects that local government cost pressures to remain higher than recent levels of general inflation, and for the sector to experience volatility and price shocks in the coming decade.

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<sup>6</sup> [https://www.dia.govt.nz/diawebsite.nsf/Files/Proactive-Releases-2025-26/\\$file/Rates-capping-RIS-December-2025.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Proactive-Releases-2025-26/$file/Rates-capping-RIS-December-2025.pdf), p. 39

<sup>7</sup>

[https://d1pepg1a2249p5.cloudfront.net/media/documents/Analysing\\_increases\\_in\\_local\\_government\\_costs\\_LI2BVKU.pdf](https://d1pepg1a2249p5.cloudfront.net/media/documents/Analysing_increases_in_local_government_costs_LI2BVKU.pdf)

Within this context, how does central government expect for adequate maintenance and renewals to this infrastructure to be paid for under the proposal?

The BERL Local Government Cost Index (LGCI) is much more appropriate. We understand that there may not be a legal basis to use the LGCI, or concern that it is not sufficiently independent of the local government sector. If this is the case, we suggest that the DIA find a legal basis to use it or use a broadly equivalent figure (such as the capital goods price index), rather than simply apply what is currently an available figure (CPI).

Finally, we consider the reference to the “quality of infrastructure” to be confusing and difficult to value. How is this measured?

*If not, what economic indicators do you suggest be included and why? Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards? If not, why not?*

No. As noted above, the cost pressures to councils (and therefore whether service standards can be met) are not closely linked to CPI inflation. We consider the LGCI to be a much more appropriate measure because this more accurately reflects the vast majority of the commodities that Council purchases, and the cost pressures that Council is exposed to in order to maintain its levels of service.

*Does the maximum of the target account for council spending on core services?<sup>8</sup>*

No; a permissible 4% annual increase is not sufficient to meet the well-documented and independently evidenced year-on-year cost pressures on core services. There will almost certainly be decreases to levels of service. Central government should consider the consequences of this, such as the decline in the quality of infrastructure, the widening of the infrastructure deficit, and the undermining of these core drivers of economic and productivity growth, and the income the Government derives from these.

Consider roading to illustrate this point. Currently Council plans to replace 1% of the sealed roading network each year (meaning it would take 100 years to fully replace the network). Rough calculations mean that, under the proposal, this timeframe would double; sealed roads would be rebuilt every 200 years. We note that former Minister for Transport Simeon Brown wanted them rebuilt every 50 years.

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<sup>8</sup> Core services as outlined in the Local Government (System Improvements) Amendment Bill 2025 being network infrastructure; public transport services; waste management; civil defence and emergency management; libraries, museums, reserves, and other recreational facilities

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

The specific decisions about what activities would not be funded is a matter for Council to take in its Long Term Plan and Annual Plans. These decisions have not been made and cannot be pre-empted. Core activities would be prioritised, but based on the information available about the rates target model, these are likely to receive real cuts and decreases in levels of service. Our preference would be for roading and stormwater activities to be exempt.

*Are changes to the target needed to account for variations between regions and councils?*

*What changes do you propose and why?*

The formula should be designed to take into account differences between local authorities and regions; for example, their exposure to natural hazard risk, their growth forecasts and the conditions of their assets. In some cases, the district's economic profile may also be relevant; for example, some districts have ports, airports or other critical infrastructure that require more significant maintenance and investment, yet do not necessarily derive significant revenue from these. Other districts without this infrastructure do not face these pressures.

## **Conclusion**

Thank you again for the opportunity to submit on the "Rates target model" proposal. Our feedback has been based on the limited information available to date, and we look forward to providing further feedback in future.

Please do not hesitate to contact us if you have any questions or wish to discuss aspects further.

Ngā mihi



Nigel Bowen  
**Mayor**