

# Who Pays for Rates Caps?

Shifting costs to  
communities and future  
generations

A research report prepared  
by the PSA



ISBN: 978-0-908798-23-0

Who Pays for Rates Caps:  
Shifting costs to communities and future generations

Published October 2026

New Zealand Public Service Association  
Te Pūkenga Here Tikanga Mahi

[www.psa.org.nz](http://www.psa.org.nz)

Authorised by Duane Leo, PSA, PO Box 3817, Wellington 6140

# Contents

|                                          |    |
|------------------------------------------|----|
| Foreword                                 | 3  |
| Executive Summary                        | 4  |
| Introduction: A popular, bad idea        | 7  |
| The fiscal impact of rates caps          | 8  |
| The evidence on rates caps               | 11 |
| Case study 1: Victoria, Australia        | 15 |
| Case Study 2: New South Wales, Australia | 18 |



## Foreword

Rates caps are a dangerous populist approach to local government funding. When central government prevents councils from raising the revenue needed to meet growing demands, the costs do not disappear; they are pushed back onto communities or deferred to another day.

This report shows that rates capping will cause critical revenue shortfalls for councils, resulting in new and higher user fees for essential community services, higher council debt, deteriorating infrastructure and mounting maintenance backlogs. These are the real consequences of rates capping. Affordable pool entry and swimming lessons for local kids. New Year's Eve fireworks. Library and museum opening hours. All are valued by communities, and all are at risk under rates capping.

Councils are being frustrated by a government that has failed to articulate either a coherent vision for local government or a workable reform strategy. After pursuing a rushed HeadStart process, the Government have paused amalgamations, leaving councils in an impossible situation where they attempt to plan without any clear pathway forward. This has wasted time and money and created significant uncertainty. As Hayden Donnell recently put it, "no one is wasting more ratepayer cash than the government".<sup>1</sup>

This is the latest example of Prime Minister Christopher Luxon's Government fumbling local government reform and showing little respect for local decision making. Despite claims to champion 'localism', the National Party has defined its approach through racist dog whistling against co-governance in water reform and the shallow populism of rates caps.

Rates caps undermine councils' ability to meet their obligations under Te Tiriti o Waitangi, further diminishing opportunities for mana whenua and iwi Māori to participate in decisions affecting local resources, places and communities. This compounds the Government's removal of voting rights for mana whenua representatives on council committees and the removal of Mana Whakahono ā Rohe through resource management reforms.

Perhaps most fundamentally, rates caps undermine local democracy. Councils elected by their communities should be accountable to them for their decisions. But when central government limits councils' ability to raise revenue, it also limits local choices. The result is less flexibility, less accountability, and less power for the communities most affected.

This report could not have come at a more critical time. Our communities deserve both affordability and quality public services, supported by fair, sustainable funding that enables local government to continue to deliver for current and future generations. Capping rates without offering meaningful alternative revenue measures puts this all at risk.

**Duane Leo and Fleur Fitzsimons**

**National Secretaries**

**The Public Service Association Te Pūkenga Here Tikanga Mahi**

---

<sup>1</sup> Donnell, Hayden. (2026) No one is wasting more ratepayer cash than the government. *The Spinoff*. 30 September 2026. Accessed at: [No one is wasting more ratepayer cash than the government | The Spinoff](#)

## Executive summary

This report reveals that the Government's rates cap policy could create up to a \$5.2 billion shortfall across council budgets over the current Long-Term Plan period, which would need to be managed through service cuts, increased debt, deferred maintenance, and higher fees and charges for communities.<sup>2</sup>

This report considers the potential impacts of rates capping for Aotearoa in two ways:

- By estimating the fiscal impact of the Government's rates cap on council finances; and
- By considering the international experience of rates capping, with particular focus on two Australian states – Victoria and New South Wales.

Rates capping is the latest in a series of poor populist Government decisions concerning local democracy. International evidence shows that, in the absence of adequate alternative funding from central government, rates capping shifts costs to local communities and local businesses. Ultimately, residents end up paying more through higher fees and charges, and with fewer services and reduced access to facilities. Ratepayers and businesses pay through deteriorating infrastructure and increased borrowing costs. Council workers pay through wage suppression and workforce pressures. Future generations will pay through deferred maintenance, growing infrastructure deficits, reduced resilience to climate and economic shocks, and increased debt.

S&P Global, the international rating agency our councils rely on for good ratings to ensure access to credit, say here in Aotearoa there is:

limited scope for the council to cut costs without hitting core services. This is because, by our estimates, councils' aggregate spending on what the Crown defines as 'nice-to-haves' (e.g., nonessential services) could be as low as 10% of spending. Generally, finding operational efficiencies can be difficult without affecting the level of service that councils provide to ratepayers. Examples could include reducing library and pool hours and the frequency of reserve maintenance like mowing grass or cutting staff numbers.<sup>3</sup>

Ultimately, rate caps constrain the choices local communities have. Councils are forced to make "nasty decisions", as one elected representative recently put it.<sup>4</sup> With less flexibility for managing revenue, local democracy is reduced and—as the current Government has made abundantly clear—central government ends up having the final word on major decisions. Rates caps are therefore a clear attack on localism.

---

<sup>2</sup> The Local Government (Rates Capping) Amendment Bill was introduced on 24 August 2026 and passed its first reading on 1 September, with National, ACT, NZ First and Labour voting in favour, and the Greens and Te Pāti Māori opposing. The bill is now before the Finance and Expenditure Committee. It proposes a 2–4% target range for annual rates increases, with councils required to have regard to the range from July 2027 and comply from July 2029, subject to exemptions.

<sup>3</sup> S&P Global. (2026) *New Zealand Council Rate Caps Could Worsen Financial Strains*. 29 March 2026, p.3. Accessed at: [New Zealand Council Rate Caps Could Worsen Financial Strains](#)

<sup>4</sup> Wellington City Council Deputy Mayor Ben McNulty, quoted in O'Dwyer, Ellen. (2026) 'Nasty decisions' for Wellington councillors looking to find \$60m in savings. *RNZ*. 6 October 2026. Accessed at: ['Nasty decisions' for Wellington councillors looking to find \\$60m in savings | RNZ](#)

Local government is currently experiencing unprecedented uncertainty. This report comes at the intersection of multiple Government-driven processes, including water reform and the recently paused Head Start amalgamation programme. The Government has put little thought into how these processes interact with local government planning cycles or indeed each other. Little concern has been shown for the impact on council services. Little respect has been shown for decisions communities have made through their Long-Term Plans. Councils across the country participated in good faith in reforms, only to have timelines suddenly altered, plans changed, agreements walked back on, or to have central Government ministers punching down with little evidence to back up their claims.

Rates caps also mean mana whenua and iwi Māori have reduced opportunities for governance of local resources and places, making it harder for councils to fulfil their local partnership expectations under Te Tiriti o Waitangi. The rates caps will compound the removal by the current government of voice in governance for mana whenua and iwi Māori. This loss of voice is the result of the Government removing voting rights for mana whenua representatives on council committees and removing mandatory Mana Whakahono ā Rohe (iwi-council participation agreements) under its resource management reforms.

In addition, as councils are forced to defer essential infrastructure investments, for iwi and hapū this could worsen existing infrastructure deficits in rural regions, affecting vital roading networks, climate resilience projects, and connections to rural marae. If central government has the last say about rates, then it has the last say about local priorities, leaving mana whenua and iwi Māori out of the equation.

### ***The evidence in this report***

This report presents modelling of the fiscal impact of the Government's proposed rates cap on council finances and summarises findings from key literature evaluating the impact of rates cap policies internationally. It summarises the international evidence on rates caps and presents two case studies from Australia (Victoria and New South Wales) so we can better understand the likely impact of rates capping here. In Aotearoa the impact is likely to be more pronounced because councils in other jurisdictions have fewer responsibilities for expensive but essential local infrastructure, and greater access to other sources of revenue.

### ***The fiscal impact***

We estimate the fiscal impact of rates capping to be up to a \$5.2 billion shortfall across council budgets over the remainder of current council Long-Term Plans. This estimate has been calculated using rates projection data from the Long-Term Plans of the 25 largest councils by population, covering 80% of the New Zealand population, and extrapolated to form a national estimate.

### ***The evidence***

For Aotearoa the impacts of rates capping would pass on costs to communities. This report finds that:

- **Rates caps don't reduce costs for residents.** Ratepayers and residents pay more through higher user charges, fees, and targeted levies for services such as waste collection, sports fields, pools and other recreation facilities, community venues, libraries, and other local amenities.

- **Rates caps force councils reduce service levels and cut programmes.** Communities face shortened facility hours, cut community programmes, and reduced grants to local organisations.
- **Rates caps delay infrastructure maintenance and renewal,** increasing long-term costs and creating larger maintenance and replacement backlogs in areas such as roads, drainage, water, and community facilities. Our environment and future generations bear the cost.
- **Rates caps threaten local democracy.** Local communities have less say over local priorities and central government has more control, and central government has the last word.
- **Rates caps threaten opportunities for governance of local resources and places by Mana whenua and iwi Māori,** as central government parameters come in over top of local plans.
- **Rates caps put councils in a no-win financial situation.** Their finances come under increasing pressure as revenue growth fails to keep pace with rising infrastructure, labour, and operating costs and councils take on more debt.
- **Rates caps reduce local employment and economic activity** because council spending is constrained.
- **Rates caps hit regional and rural communities the hardest** because they have smaller ratepayer bases and fewer alternative revenue sources.
- **Rates caps cause wage suppression and undermine workforce capability,** this increases insecurity and leads to recruitment, retention, and capability challenges.

### *Our recommendations*

It is clear better solutions to rising rates than rates caps exist. Countries like Scotland and Wales have moved away from formal capping towards more collaborative arrangements between central and local government, and this has been found to be at least as successful in limiting local tax increases as heavy-handed intervention through central government-imposed rates caps.<sup>5</sup>

We recommend that the next government:

- **Cancel plans for rates capping,** which is a failed policy that cuts across local decision making and shifts costs onto communities and future generations.
- **Honour existing Regional Deals between central government and councils.**
- **Commit to developing sustainable funding arrangements for local government through establishing a Royal Commission,** tasked with reviewing the substantial evidence from past reviews of local government and reporting back by the end of 2027 with recommendations to government for:
  - A clear definition of the role and functions of local government, including which functions should be carried out nationally, regionally and locally.
  - Which functions should be funded locally and nationally.
  - Which funding tools should be used.

---

<sup>5</sup> Gray, Mia. Barford, Anna. (2014) The Depths of the Cuts: The Uneven Geography of Local Government Austerity. *Cambridge Journal of Regions, Economy and Society*, vol 11, no 3, 541-563. Accessed at: [depths of the cuts: the uneven geography of local government austerity | Cambridge Journal of Regions, Economy and Society | Oxford Academic](#)

## Introduction: A popular, bad idea

Everywhere rates capping has been introduced, it has been politically popular. When cost-of-living pressures bite, the promise of lower council bills is attractive to most, especially where a political push for rates capping is accompanied by deliberate and sustained disparagement of local government by central government politicians. That is certainly the case here, with Prime Minister Christopher Luxon telling councils to “rein in their fantasies and get back to delivering the basics brilliantly.”<sup>6</sup>

But the reality is that rates caps do nothing to address the real issues underpinning why rates have been increasing. These include that councils today are “spending more in order to address underinvestment in previous years.”<sup>7</sup> The infrastructure gap for local government – the things that should have been built but have not been – was estimated by Infometrics at \$52 billion in 2024.<sup>8</sup>

With rates capped, councils will be forced to look elsewhere to cover costs. Rates make up around 60% of council revenue,<sup>9</sup> and the income from other sources has been dropping over the last decade.<sup>10</sup> Central government has not signalled any other significant income streams will become available to councils. In other countries where rates capping has been introduced, this has been accompanied by increased revenue from central government, such as federal assistance grants in Australia.<sup>11</sup> In England, councils receive around 32% of their funding from central government grants, compared with around 10% here.<sup>12</sup>

It is worth noting that while many central governments worldwide impose restrictions on local government revenue raising and expenditure, the Australian examples on which the current government’s proposals are based are regarded internationally as amongst the most highly regulated, and their rates capping measures are regarded as the strictest form of intervention by central government in local government.<sup>13</sup>

Rates caps don’t keep costs down for residents and ratepayers. Rates caps are only good for central government politicians who want to claim they are doing something about the cost of living, but not for local communities who are left to bear the very real costs.

---

<sup>6</sup> Luxon, Christopher. (2024) Address to LGNZ conference. As quoted in RNZ. *Local councils need to 'rein in the fantasies' on spending – PM*. Accessed at: [Local councils need to 'rein in the fantasies' on spending - PM | RNZ](#)

<sup>7</sup> Westpac senior economist Satish Ranchhod, as quoted in Venuto, Damien. *Why council rate caps might not save you as much as you think*. 20 August 2026. Stuff. Accessed at: [Why council rate caps might not save you as much as you think | Stuff](#)

<sup>8</sup> Olsen, Brad. (2024) *Analysing increases in local government costs for Local Government New Zealand*. Infometrics, February 2024. p.13. Accessed at: [Analysing increases in local government costs v3](#)

<sup>9</sup> Range is 29% (Wairoa DC - 78% Thames Coromandal DC. DIA. Regulatory Impact Statement. Rates Target Range Model Regulatory Design. p.4. [Regulatory-Impact-Statement-Rates-Target-Range-Model-regulatory-design.pdf](#)

<sup>10</sup> Olsen, Brad. (2026) *Where does council funding come from?* Infometrics, 31 March 2026. Accessed at: [Where does council funding come from?](#)

<sup>11</sup> Department of Internal Affairs. (2026) *Regulatory Impact Statement: Rates Target Model Regulatory Design*. 16 March 2026. p.18. Accessed at: [Regulatory-Impact-Statement-Rates-Target-Range-Model-regulatory-design.pdf](#)

<sup>12</sup> Atkins, Graham. (2026) *Local government funding in England: How local government is funded in England and how it has changed since 2010*. Institute for Government. 22 January 2026. Accessed at: [Local government funding in England | Institute for Government](#)

<sup>13</sup> Yarram, S.R., Dollery, B. and Tran, C. D.T.T. (2021) The impact of rate capping on local government expenditure, *Policy & Politics*, vol 49, no 3, 391–411, p 392. Accessed at: <https://doi.org/10.1332/030557320X15910206974407>

## The fiscal impact of rates caps

Our modelling reveals the fiscal impact of rates capping to be between \$1.8 billion and \$5.2 billion over the remainder of current council Long-Term Plans. Where the final figure would lie within this range ultimately depends on how quickly councils move to comply.

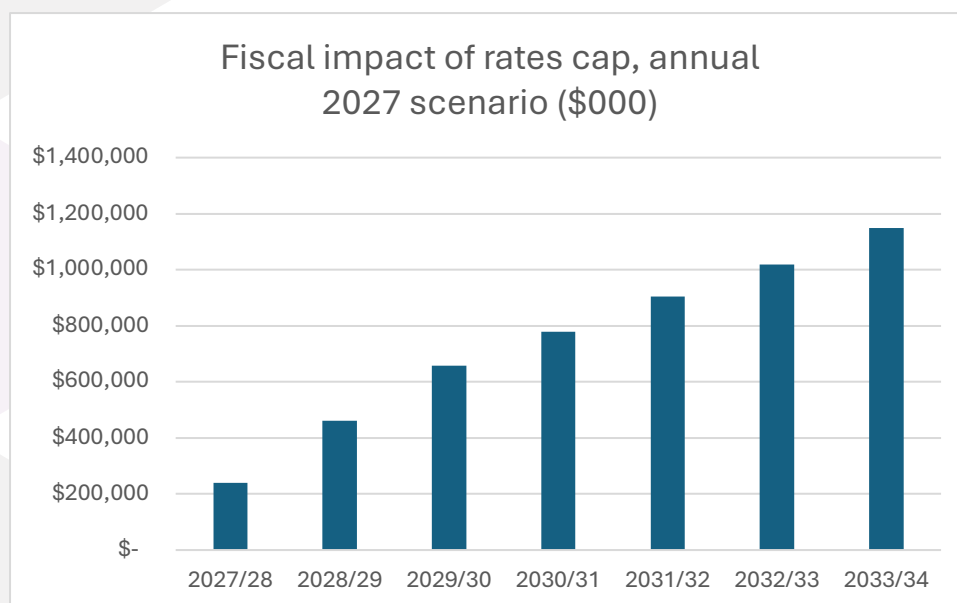
This estimate has been calculated using rates projection data from the Long-Term Plans of the 25 largest councils by population with current Long-Term Plans running to 2034, covering 80% of the New Zealand population. We then extrapolated this modelling for national estimates. The most up-to-date rates projections available were used, including those that have been amended to reflect water reform. A technical report is attached as an appendix.

The Government's rates capping policy involves a phased introduction, with councils required to consider the impact of rates caps on their Long-Term Plans (alongside further new reporting obligations) from 2027, with the full regulatory model taking effect from 2029. The estimates presented here therefore consider the fiscal impact of rates caps as a range, based on scenarios of varied levels of uptake across councils.

### *The 2027 scenario*

At the top end of this range (the '2027 scenario'), which assumes councils move to comply with the Government's cap by 2027—the start of the phase-in period set in legislation—all councils in our analysis, except Auckland, would have to reduce their planned rates increases for at least part of the Long-Term Plan period (2027-2034). As a result, these councils would bring in \$4.2 billion less rates revenue than currently planned, representing a 5.0% reduction in rates revenue and a 3.2% decrease in total revenue. When extrapolated nationally, we estimate that councils would lose a combined \$5.2 billion in revenue over the seven-year period.

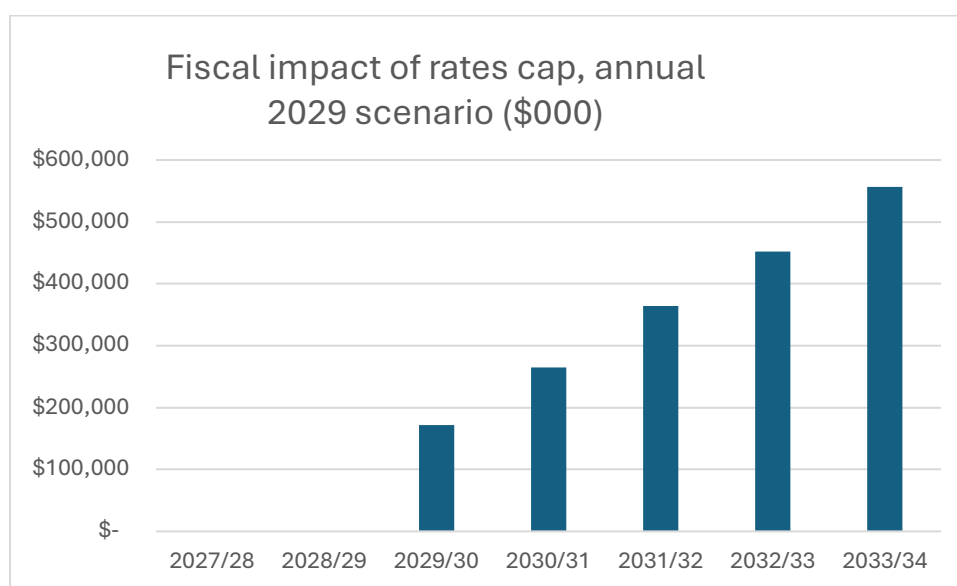
As the graph below shows, the fiscal impact grows each year rates caps are in place, from about \$240 million in 2027/28 to \$1.15 billion in 2033/34.



### *The 2029 scenario*

At the bottom end of the range (the '2029 scenario'), which assumes compliance only from when rates capping becomes mandatory in 2029, all councils in our analysis, except Auckland and Nelson, would have to reduce their planned rates increases for at least part of the period 2029-2034. Over the five years, the councils would bring in \$1.4 billion less rates revenue than currently planned, representing a 1.7% reduction in rates revenue and a 1.1% decrease in total revenue. Extrapolating this nationally, we estimate councils would lose a combined \$1.8 billion in revenue over the five-year period.

As with the 2027 scenario, under the 2029 scenario the fiscal impact grows each year rates caps are in place, from \$171 million in 2029/30 to \$556 million in 2033/34.



### *Overall fiscal impact*

This puts the fiscal impact of rates capping between \$1.8 billion and \$5.2 billion over the remainder of current council Long-Term Plans. Where the final figure will lie within this range ultimately depends on the pace of uptake across councils. The current Government's tendency to change its plans or walk back decisions, as well as the General Election on November 7, also adds to the uncertainty. Long-Term Plans are due to be refreshed next year and work on revised rates projections is already well underway. It is likely that at least some councils are already working to shift projections to within the required range, despite rates capping legislation, the Government's Local Government (Rates Capping) Amendment Bill, having only passed its first reading.

Many councils are already strongly signaling that they are facing "difficult, nasty, and hard decisions" about cuts to community services, programmes, facilities and planned infrastructure maintenance and renewal to meet the rates cap.<sup>14</sup> Many are experiencing weakened economies under current Government policy settings. These councils are grappling with how they can work within the artificial

---

<sup>14</sup> McNulty, Ben. Quoted in 'Nasty Decisions' for Wellington Councillors Looking to Find \$60m in Savings. 6 October 2026. RNZ. Accessed at: ['Nasty decisions' for Wellington councillors looking to find \\$60m in savings | RNZ](#)

constraints of the cap to continue to support local businesses through reduced commercial rates, and without simply transferring those costs to residential ratepayers.<sup>15</sup>

Our modelling shows that some regions and communities will be much harder hit than others. Several councils in our sample would face rates revenue decreases of more than 10% under the 2027 scenario:

| <i><b>Council</b></i>          | <i><b>Impact on rates revenue (2027 scenario)</b></i> |
|--------------------------------|-------------------------------------------------------|
| Lower Hutt City                | -20.9%                                                |
| Hamilton City                  | -18.8%                                                |
| Tauranga City                  | -14.8%                                                |
| New Plymouth District          | -14.1%                                                |
| Western Bay of Plenty District | -14.0%                                                |
| Dunedin City                   | -13.4%                                                |
| Selwyn District                | -11.9%                                                |
| Kapiti Coast District          | -11.4%                                                |
| Queenstown-Lakes District      | -10.3%                                                |

These regions face strong demand pressures such as population increases, infrastructure deficits, and high and growing pressure on their local infrastructure from tourism. In the absence of alternative funding arrangements, the Government's one-size-fits-all rates capping approach will be felt most strongly in these areas. Areas that are, or will one day be, recovering from significant climate events will also be constrained in their abilities to respond.

The National-led government has created an impossible situation for councils. Prime Minister Christopher Luxon and Minister of Local Government Simon Watts gave them three months to come up with concrete Headstart plans for amalgamation or risk decisions being made for them by central government. Now the Headstart process has been paused, and the Government has left councils without clarity about what their next steps will be. Meanwhile, councils are expected to continue to deliver business as usual to communities while implementing a whole new water system, a significantly changed planning regime, new budgeting and reporting requirements, and reorganising their rates and other revenue modelling to implement the rates cap. This has created an environment of pervasive uncertainty. Councils cannot robustly plan or set rates when they don't know what their near-future geographic and rateable boundaries will be.

---

<sup>15</sup> WCC. 2026 Rating Policy Review. 1 October 2026. Accessed at: [Wellington's rating policy – have your say - News and information - Wellington City Council](#)

## The evidence on rates caps

Around the world, decision makers have experimented with rates caps. There is a large and growing body of evidence that shows they do not work and can have unintended consequences. The following section summarises the international evidence about rates caps.

### 1. *Rates caps do not reduce costs for residents*

Residents pay for rates and service charges out of the same pocket. When rates are capped, councils still need to increase expenditure because of inflation and to deal with high infrastructure prices. In the absence of realistic infrastructure funding from central government, communities end up paying more as councils look for other ways to raise revenue to compensate.<sup>16</sup> The regulatory impact statement for the Government's Local Government (Rates Capping) Amendment Bill states that there is "high evidence certainty" this will happen here.<sup>17</sup>

As Westpac economist Satish Ranchhod notes, "councils may also be forced to shift to more user charges or increase the costs of services we already use. This means we could end up being charged more for services we already use or start paying for some that are free of charge."<sup>18</sup> This also redistributes the cost of local government services from rated property owners towards other residents, in a way that is unrelated to an individual or household's capacity to pay.<sup>19</sup>

The effect of this is regressive. Ratepayers and residents end up paying more out of their own pockets through increased service charges for water, waste, rubbish removal and tips, pools and leisure facilities, libraries, cemeteries, dog control, sports fields for weekend sport and training, community venue hire, zoos, parks and garden entry fees. Increased service charges put community facilities out of the reach of many.

Higher and more user charges may also promote avoidance behaviour such as "the people that chuck their rubbish over a bank rather than pay the tip fee, those that build house additions or alterations without getting a building consent, those that don't register their dog."<sup>20</sup>

---

<sup>16</sup> Kousser, T., McCubbins, M.D. and Moule, E. (2008) For whom the TEL tolls: can state tax and expenditure limits effectively reduce spending?, *State Politics & Policy Quarterly*, 8(4): 331–61. doi: [10.1177/153244000800800401](https://doi.org/10.1177/153244000800800401), as cited in Yarrum et al.

<sup>17</sup> Department of Internal Affairs. (2026) *Regulatory Impact Statement: Rates Target Model Regulatory Design*. 16 March 2026. p.59. Accessed at: [Regulatory-Impact-Statement-Rates-Target-Range-Model-regulatory-design.pdf](#)

<sup>18</sup> As quoted in Venuto, Damien. (2026) *Why council rate caps might not save you as much as you think*. 20 August 2026. Stuff. Accessed at: [Why council rate caps might not save you as much as you think | Stuff](#)

<sup>19</sup> Nahum, Dan. (2021) *Putting a Cap on Community, The Economic and Social Consequences of Victoria's Local Government Rate Caps Policy*. Centre for Future Work. p.4. Accessed at: [Putting a cap on community](#)

<sup>20</sup> Miller, Keith. (2026) *Rates caps - a proposal full of perverse incentives*. Substack. 3 September 3 2026. Accessed at: [Rates caps - a proposal full of perverse incentives](#)

## 2. *Rates caps force councils to reduce service levels and cut programmes*

Service quality reduces and programmes communities value are cut, such as:

- those run out of libraries and community and sports centres, including things like computer assistance, language groups, kids' preschool and after school activities, school holiday programmes, community gardens, community fitness sessions
- local events that bring people together like Santa parades, music and performance events and local fairs and festivals.

Grants to community, sporting and social service groups also decrease as the funding available to councils shrinks. These organisations are part of the glue that holds communities together. When they are weakened, so is social cohesion and people's quality of life.

In the United Kingdom, rates capping has been found to have a particularly significant impact on social infrastructure, with library services experiencing a 13.9% reduction in funding, a 10% reduction in staffing and an 8.4% decline in borrowing. It also reduced funding for community and recreational services, including museums (-18.3%), parks (-12.5%) and leisure centres (-13.1%).<sup>21</sup>

## 3. *Rates caps delay infrastructure maintenance and renewal*

In the absence of other adequate funding from central government, plans to maintain and improve essential local infrastructure like pipes, roads and drainage are put off, costing more when they fail.

Councils take on more debt to deal with rising costs and essential maintenance and recovery from extreme weather events becoming increasingly common.

The overall result is that under rates caps local infrastructure becomes outdated and degrades, damaging our environment and leaving it to future generations to pick up the cost.

Greater Wellington Regional Council Deputy Chair Ros Connelly notes that "(b)ecause council debt is secured against rates revenue, a cap could weaken our ability to borrow and fund major infrastructure traditionally built and paid for over generations." She raises particular concerns for rural areas that "need certainty that capping rates will not limit the ability of local government to manage land, water and climate-related risks."<sup>22</sup>

S&P Global cautions councils will be forced to manage costs by cancelling capital spend on infrastructure and that a rates cap "might only worsen the sector's ability to adequately invest in infrastructure maintenance".<sup>23</sup> They point to a report by the New Zealand Auditor General that "noted that councils have persistently underinvested in maintenance over the past decade, with maintenance meeting only 84% of annual depreciation in fiscal 2024." S&P Global also quotes Treasury as saying

---

<sup>21</sup> Windmeijer, Frank. (1998) *Report on Impact of Capping on Local Service Provision*. Institute for Fiscal Studies. December 1998. Accessed at: [Report on Impact of Capping on Local Service Provision, Institute for Fiscal Studies, December 1998](#)

<sup>22</sup> Greater Wellington. (2026) *Rates cap threatens to lock in another generation of infrastructure underinvestment*. 25 August 2026. Accessed at: [Greater Wellington — Rates cap threatens to lock in another generation of infrastructure underinvestment](#)

<sup>23</sup> S&P Global. (2026) *New Zealand Council Rate Caps Could Worsen Financial Strains*. 29 March 2026. Accessed at: [New Zealand Council Rate Caps Could Worsen Financial Strains](#)

“(s)uccessive underspending by local councils over the last 35 years, in the face of pressure to keep rates low and rate rises to a minimum, means that rates are significantly below the level that they need to be in order to be considered sustainable.”<sup>24</sup>

Councils in New Zealand are responsible for much more essential infrastructure than United Kingdom or Australian councils, however our Australian case studies also detail a similar effect there. Councils are also incentivised to greatly increase the number of rateable properties to create more revenue to cover costs, and this can have unintended and undesirable consequences, particularly when funding for the necessary water, waste and roading infrastructure to support those additional properties is not available.

#### **4. *Rates caps threaten local democracy***

Rates caps take decision-making about budgets and service levels that should rest with local councils and voters and hand it to central government.<sup>25</sup> Local budgets determine what can be delivered locally, but with rates revenue making up the lion’s share of council revenue, rates caps set by central government mean Ministers have the final say. This undermines our local democracy, which is based on locally elected councillors being accountable for delivering on the local priorities communities ask for through Long-Term Plans. Local communities have less say.

#### **5. *Rates caps put councils in a no-win financial situation***

When central government controls rates through capping, councils are left with limited options to raise revenue, in particular for infrastructure, and so are forced to take on more debt. More debt means more interest, and rates revenue that could be used for services and infrastructure is swallowed up. As S&P Global warns “(t)o keep pace with these growing investment needs, the councils will most likely fund a greater proportion of capital works using debt. That in turn would drive interest expenses higher, meaning a larger proportion of rates will go directly toward servicing borrowings.”<sup>26</sup>

Not only are councils forced to take on more debt, S&P Global also warn, “(t)he introduction of a rate cap will erode the sector’s flexibility to raise revenues” and so risks lower credit ratings for councils.<sup>27</sup> Put simply, lower credit ratings mean it is harder for councils to find lenders and the terms of lending, including interest rates, may be harsher.

In the United Kingdom, rates capping has put some councils under unendurable financial pressure. In the “183 years between the Municipal Corporations Act 1835 and 2018, just 6 Local Authorities went bankrupt. But since 2018, 12 Section 114 Notices (a notice of bankruptcy) were issued. Birmingham City Council, Europe’s largest local authority, went bankrupt in 2024. The council was forced to cut up to 600 council jobs, scrap almost all arts funding, and sell 11 community centres.”<sup>28</sup>

---

<sup>24</sup> S&P Global. (2025) *Rates Cap Tightens the Financial Screws*. 2 December 2025. Accessed at: [New Zealand Local Government Brief: Rates Cap Tightens The Financial Screws](#)

<sup>25</sup> Nahum, Dan. (2021) *Putting a Cap on Community, The Economic and Social Consequences of Victoria’s Local Government Rate Caps Policy*. Centre for Future Work. p.5. Accessed at: [Putting a cap on community](#)

<sup>26</sup> S&P Global. (2026) *New Zealand Council Rate Caps Could Worsen Financial Strains*. 29 March 2026. Accessed at: [New Zealand Council Rate Caps Could Worsen Financial Strains](#)

<sup>27</sup> Ibid.

<sup>28</sup> Rennie, Craig. (2025) *A small war with local government*. Substack. 5 July 2025. Accessed at: [A small war with local government - Craig Renney](#)

## **6. Rates caps reduce local employment and economic activity**

There is clear evidence, presented below in our Australian case studies, that local economies suffer and local jobs are lost under rates caps. When councils stop spending locally on infrastructure and services, local firms and those who work for them suffer. When standards for services and programmes important to local firms like roading, waste management and town centre amenity are run down and community events and programmes are cut back, local businesses and local economies suffer. The economic costs associated with constrained local government revenue and reduced service provision increase over time if rates capping remains in place long-term.

## **7. Rates caps hit regional and rural communities the hardest**

Smaller and rural councils are more severely affected as their scale and the smaller number of services they offer gives them less scope to raise revenue through increasing service charges.

There are also broader economic arguments against rates capping. It is “pro- rather than counter-cyclic: it becomes more restrictive rather than less when the overall economy slows (since the inflation indices to which the rate cap is tied tend to slow when the economy is weak).” It “embed(s) a dynamic of self-fulfilling fiscal restraint and austerity, applying the brakes to recovery and growth.”<sup>29</sup>

## **8. Rates caps cause wage suppression and undermine workforce capability**

For councils to meet standards expected by communities, they need to employ capable and experienced people in a wide range of roles. These roles include: engineers, planners and consents specialists, librarians, democracy services and policy professionals, transport specialists, plant and infrastructure managers and specialists, environmental scientists and technicians, community engagement and outreach specialists, parks and gardens staff, waste and water specialists, public health workers and public safety specialists. This list is not exhaustive.

With rates making up the bulk of council revenue, capping rates constrains councils’ ability to invest in their people. Our Australian case studies show many councils link employment agreements and remuneration outcomes to the rate cap. As a result, wage increases remain well below inflation.<sup>30</sup> Councils also look to cut costs through hiring workers on a casual basis or through labour hire firms, to the detriment of job quality and stability.<sup>31</sup> Ongoing wage suppression and increased insecurity create workforce pressures, including challenges with recruitment, retention, and maintaining service capability. Underinvesting in the capability of people working for council is just as short-sighted and reckless as underinvesting in physical infrastructure. It passes on costs to communities in the form of lower standards and reduced ability to deliver.

---

<sup>29</sup> Nahum, Dan. (2021) *Putting a Cap on Community, The Economic and Social Consequences of Victoria’s Local Government Rate Caps Policy*. Centre for Future Work. p.4. Accessed at: [Putting a cap on community](#)

<sup>30</sup> Essential Services Commission. (2025) *Local Council outcomes report 2025*. p.14. Accessed at: [Local Council outcomes report 2025 | Essential Services Commission](#)

<sup>31</sup> Nahum found less than half of Victorian local government workers enjoy permanent, full-time employment.

## Case study one: Victoria, Australia

### Higher fees, declining satisfaction, financial pressure, smaller and rural councils miss out

In 2016, Victoria introduced a system of rates capping to limit annual increases in council rates. The rate cap applies to the council's total rates revenue only. Individual rates bills may increase or decrease by more (or less) than the capped rise amount due to valuation changes. The Minister for Local Government sets a cap on the advice of the Victorian Essential Services Commission, and councils may seek variations in exceptional circumstances.<sup>32</sup>

#### ***Key lessons***

Victoria demonstrates that rates can be capped while overall costs to residents continue to rise. Local economies suffer, jobs are lost and the burden is transferred to residents through higher service charges, declining service quality, workforce pressures, and growing financial strain on councils.<sup>33</sup>

The Victorian experience also shows one-size-fits-all caps across councils or expenditure categories can miss their aims and disproportionately harm rural and smaller councils.<sup>34</sup>

The Victorian Essential Services Commission (ESC) 2025 evaluation of Victorian rates capping,<sup>35</sup> a 2021 analysis by Yarram et al,<sup>36</sup> and 2021 analysis by Nahum,<sup>37</sup> found that while Victorian councils generally complied with the cap, a number of unintended consequences emerged:

#### ***1. Rates caps damaged the State economy and reduced employment***

Nahum found the rate caps reduced Victorian employment, counting direct local government and indirect private-sector jobs, by up to 7,425 jobs in 2021-22 and reduced GDP by up to \$890 million.<sup>38</sup>

---

<sup>32</sup> Yarram S.R., Dollery, B. and Tran, C. D.T.T. (2021) The impact of rate capping on local government expenditure, *Policy & Politics*, vol 49, no 3, 391–411. .392. Accessed at: <https://doi.org/10.1332/030557320X15910206974407>

<sup>33</sup> Ibid., p.407.

<sup>34</sup> Ibid., p.408.

<sup>35</sup> Essential Services Commission. (2025) *Local Council outcomes report 2025*. p1. Accessed at: [Local Council outcomes report 2025 | Essential Services Commission](#)

<sup>36</sup> Yarram, S.R., Dollery, B. and Tran, C. D.T.T. (2021) The impact of rate capping on local government expenditure, *Policy & Politics*, vol 49, no 3, 391–411. Accessed at: <https://doi.org/10.1332/030557320X15910206974407>

<sup>37</sup> Nahum, Dan. (2021) *Putting a Cap on Community, The Economic and Social Consequences of Victoria's Local Government Rate Caps Policy*. Centre for Future Work. Accessed at: [Putting a cap on community](#)

<sup>38</sup> Ibid., p.5.

## ***2. Rates caps have not reduced council expenditure***

The ESC found that while councils generally complied with the cap, expenditure continued to grow. Yarram et al found that rates capping “did not lead to a reduction in either council expenditure or its key components”,<sup>39</sup> meaning compliance with the cap does not necessarily keep overall costs to households down.

## ***3. Rates caps led to increased service charges***

In Victoria, many service rates and charges are not subject to the cap. These charges increased by about 12% annually during 2022-23 and 2023-24, significantly above the rates cap.<sup>40</sup>

This highlights a limitation of rates capping as a cost-of-living measure because councils can use uncapped charges to help meet rising costs. As a result, total council-related costs faced by households may continue to rise.

## ***4. Rates caps affected vulnerable communities***

Councils shifted funding away from less visible services. Yarram et al found that spending on aged and disabled services fell “from an average \$6.58 million for the period prior to the rate cap to \$6.4 million after the rate cap”, with a 9.2% fall in rural councils compared with 3.5% in urban councils. Yarram also found a negative association with expenditure on family and community services in urban councils.<sup>41</sup> Similarly, the ESC found spending on aged and disabled services, and business and economic services decreased.<sup>42</sup>

## ***5. Rates caps did not help financial hardship pressures***

The ESC reported outstanding rates rising as a percentage of total rates and charges, suggesting more ratepayers face financial hardship.<sup>43</sup> This shows that rates capping alone does not address broader affordability pressures affecting households.

## ***6. Rates caps did not reduce council spending***

Council revenue has increased, but the ESC found it has generally not kept pace with expenditure growth, particularly increases in materials and services costs, and capital works.

---

<sup>39</sup> Yarrum S.R., Dollery, B. and Tran, C. D.T.T. (2021) The impact of rate capping on local government expenditure, *Policy & Politics*, vol 49, no 3, 391–411. p.401. Accessed at: <https://doi.org/10.1332/030557320X15910206974407>

<sup>40</sup> Essential Services Commission. (2025) *Local Council outcomes report 2025*. p.4. Accessed at: [Local Council outcomes report 2025 | Essential Services Commission](#).

<sup>41</sup> Yarrum S.R., Dollery, B. and Tran, C. D.T.T. (2021) The impact of rate capping on local government expenditure, *Policy & Politics*, vol 49, no 3, 391–411. p.407. Accessed at: <https://doi.org/10.1332/030557320X15910206974407>

<sup>42</sup> Ibid., p.18.

<sup>43</sup> Essential Services Commission. (2025) *Local Council outcomes report 2025*. p.6. Accessed at: [Local Council outcomes report 2025 | Essential Services Commission](#).

Rising costs and capped revenue growth are increasing pressure on operating budgets and long-term financial sustainability.

### ***7. Rates caps devalued council jobs***

The ESC noted that many councils link employment agreements and remuneration outcomes to the rate cap, leaving wage increases well below inflation. Nahum reported councils looked to cut costs through hiring workers on a casual basis or through labour hire firms, to the detriment of job quality and stability. By 2021, less than half of Victorian local government workers had permanent, full-time employment.<sup>44</sup>

### ***8. Rates caps led to service quality and community satisfaction declining***

The ESC found that measures of service quality and community satisfaction have declined since 2020-21, including satisfaction with council decisions and sealed roads.<sup>45</sup> Declines were more pronounced in rural and regional councils, which fell across all satisfaction measures, than in metropolitan councils. This suggests that prolonged revenue constraints may affect service standards, particularly in regional and rural councils with smaller ratepayer bases and fewer alternative revenue opportunities.

### ***9. Rates caps decreased the financial sustainability of councils***

Overall, the local government sector is operating in a tighter financial environment than in the early years of rates capping. Although most councils have reported operating surpluses, overall indebtedness increased slightly and the ESC found that 43 councils reported adjusted underlying deficits.<sup>46</sup>

---

<sup>44</sup> Nahum found less than half of Victorian local government workers enjoy permanent, full-time employment.

<sup>45</sup> Essential Services Commission. (2025) *Local Council outcomes report 2025*. p.19. Accessed at: [Local Council outcomes report 2025 | Essential Services Commission](#).

<sup>46</sup> Ibid., p.25.

## Case study two: New South Wales, Australia

### *Infrastructure backlogs, higher debt and economic costs*

New South Wales has operated under a long-standing rates cap regime and provides one of the most studied examples of the policy's effects.<sup>47</sup> Research by Professor Brian Dollery comparing council performance in New South Wales (which has rates capping) and in South Australia (which does not), found that while rates capping is generally popular with the public and successfully limits rates growth, it imposes substantial long-term costs on councils, communities and local economies.<sup>48</sup>

It should be noted that the New South Wales rate “peg” does not apply to stormwater, waste collection, water and sewerage charges.<sup>49</sup>

#### ***Key lessons***

The New South Wales experience shows that rates capping can lower rates while simultaneously increasing debt, worsening infrastructure backlogs, reducing services, and creating inequities between different types of councils, leaving smaller and rural councils worse off. The costs do not disappear; they accumulate elsewhere.

##### ***1. Rates caps have not improved efficiency***

Comparing capped New South Wales and uncapped South Australian councils, Dollery found rate capping has not led to measurable improvements in the operational efficiency of local councils.<sup>50</sup>

##### ***2. Rates caps have increased infrastructure backlogs***

Drew and Dollery found capped New South Wales councils tend to have larger infrastructure renewal and maintenance backlogs than uncapped councils.<sup>51</sup>

---

<sup>47</sup> Rates capping legislation was introduced in NSW in 1977.

<sup>48</sup> Dollery, Brian. (2022) *Rate Capping in New South Wales Local Government: Addressing the Questions Raised in the IPART (2022) Review of Rate Peg Methodology*. Accessed at:

[Rate Capping in New South Wales Local Government: Addressing the Questions Raised in the IPART \(2022\) Review of Rate Peg Methodology, Dollery \(2022\).](#)

<sup>49</sup> Ibid., p.3.

<sup>50</sup> Ibid.

<sup>51</sup> Drew, J., Kortt, M. and Dollery, B. (2015) What determines efficiency in local government? A DEA analysis of NSW local government, *Economic Papers: A Journal of Applied Economics and Policy*, vol 34, no 4, 243–56. Accessed at: [10.1111/1759-3441.12118](#)

### ***3. Rates caps have increased debt and decreased financial sustainability***

Drew and Dollery also found that capped councils from New South Wales generally carry higher debt per household and display weaker indicators of financial sustainability than uncapped councils in South Australia.<sup>52</sup>

Dollery reinforces concerns raised by the 2006 Independent Inquiry into the Financial Sustainability of New South Wales Local Government (the Allan Report), which concluded that the New South Wales rating system did not provide many councils with a financially adequate revenue base. As a result, some councils struggled to sustainably fund services and maintain and renew infrastructure. Dollery argues that the long-standing New South Wales rate cap regime has contributed to ongoing financial sustainability challenges, including insufficient rates revenue, infrastructure underinvestment, and growing pressure on councils' ability to meet community expectations.<sup>53</sup>

### ***4. Rates caps have left rural councils worse off***

Rate capping in New South Wales has not reduced differences in revenue-raising capacity between councils, leaving rural councils worse off and with less access to revenue.<sup>54</sup>

### ***5. Rates caps have compromised local services***

Constrained revenue ultimately affects frontline services and, rather than protecting residents, prolonged revenue constraints can result in compromised service delivery and reduced local employment and wages. In the New South Wales example:

- rate capping reduces expenditure on local services, particularly services for older people and people with disabilities
- urban councils also tend to reduce spending on family and community services
- residents can be affected through reduced service quality and availability, increased council fees and charges, and lower local economic activity.<sup>55</sup>

---

<sup>52</sup> Ibid.

<sup>53</sup> Dollery, Brian. (2022) *Rate Capping in New South Wales Local Government: Addressing the Questions Raised in the IPART (2022) Review of Rate Peg Methodology*. p.401. Accessed at: [Rate Capping in New South Wales Local Government: Addressing the Questions Raised in the IPART \(2022\) Review of Rate Peg Methodology, Dollery \(2022\)](#).

<sup>54</sup> Ibid. p.401.

<sup>55</sup> Ibid.

## Appendix

### Technical report: Fiscal impacts of a rates cap on council finances

The Government's Local Government (Rates Capping) Amendment Bill would create a range for annual property rates increases that councils must abide by. The initial range is set at 2%-4%, reviewable every six years. Exemptions are allowed in extreme cases. Councils are encouraged to meet this target range from 1 July 2027 and, if the legislation passes, will be required to do so from 1 July 2029.

This technical report summarises modelling used to estimate the fiscal impact on councils of the imposition of these rates caps.

#### Modelling approach

Using data from the Long-Term Plans of the 25 largest councils by population with current Long-Term Plans extending to 2034, we calculated the effects of a 4% rates cap on those councils. These 25 councils represent 80% of New Zealand's population. We compared projected rates increases and revenue with two alternative scenarios where the councils replace any planned rates increases of greater than 4% with increases of exactly 4%, either from 1 July 2027 or from 1 July 2029.

Most councils' rates increase projections reduce over time, from an average of over 7% in 2027/28 to 4.0% in 2033/34. This, and compounding effects, means that the year councils begin to comply with the rates cap has a significant impact on how much the cap affects the councils' revenue.

#### 2027 scenario

Under the 2027 scenario, all the councils, except Auckland, would have to reduce their planned rates increases for at least part of the period 2027-34. Over the seven years, the councils would bring in \$4.2 billion less rates revenue than currently planned, representing a 5.0% reduction in rates revenue and a 3.2% decrease in total revenue. Extending this to the councils not analysed, we estimate all councils would lose a combined \$5.2 billion in revenue over the seven-year period.

The revenue reduction grows each year as the restraint in rates increases compounds- by 2033/34, the gap is \$920 million a year, 7.3% of planned rates revenue and 4.3% of total revenue.

#### 2029 scenario

Under the 2029 scenario, all the councils, except Auckland and Nelson, would have to reduce their planned rates increases for at least part of the period 2029-34. Over the five years, the councils would bring in \$1.4 billion less rates revenue than currently planned, representing a 1.7% reduction in rates revenue and a 1.1% decrease in total revenue. Extending this to the councils not analysed, we estimate all councils would lose a combined \$1.8 billion in revenue over the five-year period.

The revenue reduction grows each year as the restraint in rates increases compounds- by 2033/34, the gap is \$450 million a year, 3.5% of planned rates revenue and 2.1% of total revenue.

## Impacts on the 25 largest local councils with current Long-Term Plans

|                                | 2027         |            |                    | 2029         |            |                    |
|--------------------------------|--------------|------------|--------------------|--------------|------------|--------------------|
|                                | \$m          | % of rates | % of total revenue | \$m          | % of rates | % of total revenue |
| Auckland Council               | \$0          | 0.00%      | 0.00%              | \$0          | 0.00%      | 0.00%              |
| Christchurch City              | -\$249,156   | -3.19%     | -2.35%             | -\$54,509    | -0.94%     | -0.51%             |
| Wellington City                | -\$105,399   | -2.74%     | -1.72%             | -\$37,028    | -1.29%     | -0.60%             |
| Hamilton City                  | -\$833,547   | -18.80%    | -13.18%            | -\$222,342   | -6.50%     | -3.51%             |
| Tauranga City                  | -\$633,600   | -14.81%    | -12.18%            | -\$333,467   | -10.06%    | -6.41%             |
| Dunedin City                   | -\$373,781   | -13.43%    | -9.58%             | -\$129,691   | -6.15%     | -3.32%             |
| Lower Hutt City                | -\$310,137   | -20.90%    | -8.31%             | -\$147,086   | -12.64%    | -3.94%             |
| Whangarei District             | -\$40,249    | -2.46%     | -1.73%             | -\$18,510    | -1.51%     | -0.80%             |
| Palmerston North City          | -\$145,396   | -9.74%     | -7.87%             | -\$80,841    | -7.12%     | -4.37%             |
| New Plymouth District          | -\$236,170   | -14.06%    | -8.75%             | -\$112,473   | -8.69%     | -4.17%             |
| Hastings District              | -\$130,802   | -8.27%     | -4.95%             | -\$26,380    | -2.22%     | -1.00%             |
| Selwyn District                | -\$192,779   | -11.85%    | -7.75%             | -\$25,106    | -2.02%     | -1.01%             |
| Rotorua District               | -\$65,713    | -4.55%     | -3.60%             | -\$5,110     | -0.48%     | -0.28%             |
| Waimakariri District           | -\$15,974    | -1.59%     | -1.01%             | -\$722       | -0.10%     | -0.05%             |
| Waipa                          | -\$65,347    | -5.39%     | -4.66%             | -\$5,298     | -0.57%     | -0.38%             |
| Porirua                        | -\$96,138    | -7.19%     | -4.61%             | -\$19,947    | -1.98%     | -0.96%             |
| Western Bay of Plenty District | -\$158,040   | -14.02%    | -9.45%             | -\$92,526    | -10.73%    | -5.53%             |
| Tasman District                | -\$14,807    | -1.31%     | -0.73%             | -\$3,074     | -0.36%     | -0.15%             |
| Kapiti Coast District          | -\$136,077   | -11.40%    | -9.51%             | -\$78,014    | -8.51%     | -5.45%             |
| Invercargill City              | -\$59,017    | -7.10%     | -4.22%             | -\$14,839    | -2.38%     | -1.06%             |
| Nelson                         | -\$1,636     | -0.17%     | -0.09%             | \$0          | 0.00%      | 0.00%              |
| Queenstown-Lakes District      | -\$217,328   | -10.33%    | -6.23%             | -\$16,894    | -1.05%     | -0.48%             |
| Marlborough District           | -\$49,550    | -4.99%     | -2.70%             | -\$13,537    | -1.83%     | -0.74%             |
| Timaru District                | -\$20,979    | -2.45%     | -1.58%             | -\$9,592     | -1.50%     | -0.72%             |
| Whanganui District             | -\$16,042    | -2.04%     | -1.39%             | -\$558       | -0.10%     | -0.05%             |
| Total                          | -\$4,167,664 | -4.95%     | -3.22%             | -\$1,447,543 | -1.72%     | -1.12%             |
| Nationwide (extrapolated)      | -\$5,209,580 | -4.95%     | -3.22%             | -\$1,809,429 | -1.72%     | -1.12%             |

