Office of the Mayor

Tauranga City

2 February 2026

Rowan Burns
Policy Manager
Department of Internal Affairs

By email: ratescapping@dia.govt.nz

Dear Rowan

Tauranga City Council's Submission to Department of Internal Affairs on the government's rate-capping proposal

1. Thank you for the opportunity to submit directly on the above proposal and the model that has been prepared by the Department.
2. The original targeted consultation invitation included five questions, two about the 'formula' to be used and three about the broader proposal and the impact on council spending and services to be provided to the community.

The formula

3. We do not propose to submit on the details of the formula. We understand that there is significant further work underway by the Department in refining the details of the proposed formula and look forward to a more detailed and workable approach in due course.

Rates-capping and its impacts

4. Council recognises the cost of living crisis that affects residents and ratepayers in Tauranga and across the country. Many people are doing it hard at the moment and any efforts to realistically control household and business costs are supported.
5. As such, the government's intention to minimise the impact of rates increases on those households and businesses is supported.
6. However, a one-size-fits-all approach as proposed (with the option for individual variations for 'extreme circumstances' or by application to an as-yet-unknown regulator) is not wholly supported for the reasons set out in the following sections, broadly ordered to fit with the consultation questions asked.

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Question 3: Does the maximum of the target account for council spending on core services?

7. In short, no.

8. Council is still in the process of preparing its draft 2026/27 annual plan and there will invariably be further change before the final budget is adopted, more so now following the tragic events on Mauao in January. However, work-to-date shows that for a growth council such as Tauranga, working to a 4% rates cap is likely to have a detrimental effect on the assets and core services that can be delivered to our community.

9. Taking the definition of core services included in the Local Government (System Improvements) Bill ("the Bill") and adding in regulatory functions[1], the year-on-year increase in rates requirements for core services (excluding waters) for Tauranga City Council is approximately 9.3%. While Council is working to reduce this through the annual plan process, what can't be reduced are debt servicing and depreciation costs on those core service activities which together equate to approximately a 5.2% rates increase. (Note that this excludes the majority of growth-related debt servicing costs which are capitalised back into development contribution calculations.)

10. This 5.2% increase is a direct result of the prior year's capital expenditure requirements in those core service activities. As such, and as detailed below, any push to reduce rates increases will invariably have an impact on future capital expenditure programmes exacerbating the infrastructure deficit our city faces.

Question 4: What council spending will not be able to take place under this target range? Why?

<u>Growth impacts</u>

11. Tauranga City Council is a Tier 1 urban growth council as defined in the National Policy Statement on Urban Development. Capital expenditure (including waters) in the 2024-2034 long-term plan amounts to approximately $5 billion.

12. Under a target range of 2-4%, council will be restricted in its ability to borrow for growth-related capital expenditure.

13. By restricting a council's power to increase rate revenue, this policy will also restrict a council's ability to borrow cost efficiently through the Local Government Financing Agency (LGFA). This is because:

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[1] Which are specified in the purpose of local government both in the extant Local Government Act (section 10) and in the Bill (section 6, which amends section 10 but retains the 'performance of regulatory functions' as part of the statutory purpose) but strangely not in the proposed definition of core services

a. a borrowing council can only borrow up to a multiplier of its rates revenue, and

b. a borrowing council cannot generally borrow from other financiers if borrowing from LGFA, and

c. ratings agencies have commented on the likely negative impact rates caps would have on credit ratings, making borrowing more costly.

14. The LGFA is this council's preferred financier as it provides the most affordable borrowing opportunities. Tauranga City Council, like some other high growth councils, was close to its maximum borrowing capacity under the normal LGFA borrowing limits which required council to apply to the LGFA for a bespoke growth debt-to-revenue ratio which was granted at 350%. High level modelling shows that, when the waters business is divested on 1 July 2027, Tauranga City Council would be close to breaching the bespoke limits of 330% (350% limit with a 20% prudence 'buffer' for emergency or unforeseen requirements) with rates increases averaging at 10% per the 2024-2034 long-term plan.

15. Growth infrastructure is generally expensive and must be delivered well in advance of growth occurring. This means council outlays significant capital expenditure to enable growth to occur. The growth happens over the following years. It usually takes decades for council to recoup growth-related expenditure through development contributions and rates. This utilises a significant portion of council's available borrowing capacity.

16. Rating revenue makes up a large proportion of council's total revenue. Council's ability to increase revenue from other funding sources is bound by market forces. Without the capacity to increase revenue, council will struggle to materially increase its borrowing capacity. This will inhibit its ability to finance growth-related infrastructure to help deliver serviced land to market.

17. Because of this, we support the government's proposal that a localised growth factor may be needed in the final 'model' and that 'the range will apply to the price component of rates, not volume growth' (by which we assume that the cap will not be on 'total rates' but instead some calculation of 'total rates divided by rateable properties'). While this might have the effect of lifting the 4% cap for growth councils, this is unlikely to go far enough. We also believe the suggestions under question 5 below need to be implemented.

<u>Service impacts</u>

18. With a rates cap in place, and with capital expenditure on core services remaining at expected levels, it is likely that the delivery of core services (or the direct cost-to-user of those services) will be materially affected. Such decisions are for the elected council of the day to make, in consultation with the community, but are likely to involve libraries, swimming pools, sports fields/courts, and the like.

Question 5: Are changes to the target needed to account for variations between regions and councils? What changes do you propose and why?

19. Yes, any rates targets need to account for variations between councils. The most significant factor for this council would be to treat Tier 1 growth councils differently.

20. Despite this council's best efforts, growth does not fully pay for growth. There is always an impact on the existing ratepayer base. For instance, a major growth project which is fully funded by development contributions (including capitalised interest on council's borrowings) may be operating at capacity in five, 10 or 20 years. Yet the depreciation on the full asset value will be charged from day one and funded each year by the ratepayer base. This unavoidable growth-related impact on rates will naturally have a negative impact on council's ability to work to the cap.

21. There is a similar impact of direct operating costs for new growth assets. A new library, built to service both existing communities and growth communities, will incur operating costs on day one that will be funded 100% by the existing ratepayer base. Over time (years or decades) the growth in the rating base will reduce this reliance on the existing ratepayer, but until that happens the new asset will be a factor that will affect keeping rates under a cap.

<u>Change proposals for growth councils</u>

22. Preferred option – remove transport and other core infrastructure activities from the rates cap calculations (in the same way that water, wastewater and stormwater are proposed to be removed).

    This removes the growth aspect from the cap and avoids the rates cap proposal having a detrimental impact on councils' response to the government's focus on building more homes for our communities.

23. Secondary option – remove the rates-funded debt-servicing and depreciation elements on core growth assets and the associated debt from the rates cap calculation.

    This approach removes the most obvious and impactful elements of expenditure in a growth council which is driving rates increases among existing ratepayers, and which is unavoidable as council seeks to deliver the core infrastructure that a growing city needs.

<u>Impact of the rates cap proposal</u>

24. Finally, we note that the rates cap and its impacts on councils' finances undermine other central government workstreams by:

    a. restricting the land use flexibility the government has introduced through resource management reform as councils will not be able to afford to service the land; and

    b. restricting the ability to rate to fund growth or partial-growth capital expenditure, thereby restricting the use of other financing tools that the government is encouraging councils to consider.

25. A rates cap is likely to drive perverse behaviours of, either, not being financially prudent by fully funding depreciation, or, deciding to stop building required core infrastructure leading to further underinvestment.

If you are holding hearings Tauranga City Council wishes to speak to their submission.

Your sincerely

Mahé Drysdale MNZM
Mayor Tauranga