AGENDA

Late Reports
Ordinary Council meeting
Tuesday, 1 December 2026

Date: Tuesday, 1 December 2026

Time: 9:00 am

Location: Tauranga City Council Chambers
L1, 90 Devonport Road
Tauranga

Gareth Green

Interim Chief Executive

Order of Business

11 Business 4

11.20 Draft Submission on Rates Capping Bill 4

11 BUSINESS

11.20 Draft Submission on Rates Capping Bill

File Number: **A21508969**

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Authoriser: **Gareth Green, Interim Chief Executive**

PURPOSE OF THE REPORT

1. To consider Council's draft submission on the Local Government (Rates Capping) Amendment Bill.

RECOMMENDATIONS

That the Council:

(a) Receives the report "Draft Submission on Rates Capping Bill".

(b) Approves the draft submission included as Attachment A *with the following amendments (if necessary):*

(i) …

(c) Authorises the Chief Executive to submit the finalised submission to the Finance and Expenditure Select Committee ahead of the deadline of close of business 1 December 2026.

DISCUSSION

The Bill and timeframes

2. The Local Government (Rates Capping) Amendment Bill ("the Bill") was introduced into Parliament by the Government on 25 August 2026. The Bill received its first reading on 1 September 2026 and was referred to the Finance and Expenditure Select Committee.

3. The Finance and Expenditure Select Committee have set an initial deadline for submissions of 1 December 2026. At the time of writing, the next government has yet to be formed. As such, there is uncertainty as to whether the yet-to-be-reformed Select Committee will retain that deadline or extend it (or, indeed, if the incoming government will retain the Bill in its current form or at all).

The purpose of the Bill

4. The 'General policy statement' in the explanatory note to the Bill states that:

> *'(The) single broad policy is to establish a framework to limit annual increases of non-water-related rates in order to promote local authority fiscal responsibility and the predictability of costs to ratepayers.*
>
> *'The Bill builds upon the direction set in the Local Government (System Improvements) Amendment Bill, particularly the changes to the purpose of local government, the core services that councils should consider in their role, and the focus on these matters in councils' financial management approach.*
>
> *'The Bill amends the Local Government (Rating) Act 2002, the Local Government Act 2002, and the Legislation Act 2019. The changes relate to both how councils plan rates*

increases in council planning documents and how rates are set. Compliance will be overseen by a regulator.'

Council's previous commentary on rates capping

5. On 1 December 2025, the Government announced that it had 'agreed to progress a rates cap to help councils keep rates increases under control and reduce pressure on household budgets'. As part of that announcement it released, through the then Department of Internal Affairs, a discussion document and sought feedback from councils and other stakeholders.

6. On 10 February 2026, Council considered and formally (and retrospectively) approved its submission on that discussion document. The report to that Council meeting can be found on Council's website here (item 11.4) and the minutes of that meeting can be found on Council's website here.

Draft submission

7. A draft submission on the Bill has been prepared by staff and shared with elected members prior to this meeting. It is now included as Attachment 1 to this report for formal consideration.

Options and risks

8. Council can choose:

   (a) to submit the attached draft submission

   (b) to amend the draft submission and then submit, or

   (c) not to make a submission.

9. As Council is a participant in the process and not the ultimate decision-maker on the Bill, there is little risk in relation to any of the above options.

NEXT STEPS

10. If Council approves, or amends and approves, the attached draft submission, that submission will be submitted to the Finance and Expenditure Select Committee before the deadline of close of business on 1 December 2026.

ATTACHMENTS

1. Draft submission on rates capping amendment bill - A21509833

Committee Secretariat
Finance and Expenditure Committee
Parliament Buildings
Wellington

Tauranga City Council's submission on the Local Government (Rates Capping) Amendment Bill

1. Thank you for the opportunity to submit on the above Bill.

Summary of Council's position

2. Tauranga City Council supports the objectives of greater affordability, predictability and transparency for ratepayers. Council recognises the cost-of-living pressures facing households and businesses and accepts its responsibility to exercise fiscal discipline, control expenditure and demonstrate value for money.

3. However, Council does not support a uniform rates cap that fails to recognise the infrastructure requirements and funding pressures of high-growth councils. Affordability and value for money must be considered alongside the need to build, maintain and replace essential infrastructure for current and future communities.

4. As a high-growth Tier 1 urban council, Tauranga must invest ahead of development, while recovering costs over many years. A rates-growth limit of 2–4% risks constraining both the revenue available to meet existing obligations and the borrowing capacity needed to deliver growth-enabling infrastructure. Provision for individual variations in extreme circumstances, or through an application process, does not by itself resolve these structural pressures.

Changes sought

5. Council asks the Committee to amend the proposed framework to recognise differences between councils, particularly the circumstances of Tier 1 growth councils, and to adopt the following changes:

    a. Preferred option: exclude transport and other core infrastructure activities from rates-cap calculations, consistent with the treatment of water, wastewater and stormwater.

    b. Alternative option: exclude rates-funded debt-servicing and depreciation costs attributable to core growth assets and their associated debt from rates-cap calculations.

6. We also seek that central government works with councils and communities on alternative, sustainable funding solutions for growth-related infrastructure, recognising that capital funding alone does not meet the ongoing operating and depreciation costs of new assets.

Growth creates costs before the rating base catches up

7. Tauranga City Council must provide roads, transport networks, community facilities and resilience projects to support its growing population. These investments are essential to

existing and future residents. They often require substantial upfront borrowing, while development contributions and rates revenue are received over a much longer period.

8. Even where development contributions fully fund a growth project's capital costs, including capitalised interest, growth does not meet every associated cost as it arises. An asset may take five, 10 or 20 years to reach capacity, but depreciation on its full value is charged from the outset and funded by the ratepayer base. This places pressure on existing ratepayers before the anticipated growth has occurred.
9. New assets also generate immediate operating costs. For example, a library serving both existing and future communities incurs operating expenditure from opening, initially funded by the existing ratepayer base. Growth in that base reduces the reliance on existing ratepayers over years or decades, rather than immediately.
10. Further, existing assets are regularly revalued to meet accounting standards. Where this valuation results in an increase, as it invariable does, Council's depreciation expense automatically increases. To meet prudent financial management and balanced budget requirements, this naturally means that rates will increase putting further pressure on the rates cap limit.
11. Alternative mechanisms for funding growth-related capital expenditure do not remove these ongoing obligations. Depreciation on growth assets alone may consume much, if not all, of the rates increase available under a cap. The framework therefore needs to recognise the timing mismatch between infrastructure delivery, operating costs and growth in the rating base.

Existing commitments limit short-term flexibility

12. Much of a rates increase can be required to meet costs arising from infrastructure already delivered, rather than discretionary additions to services. In the 2026/27 year, debt-servicing and depreciation costs on core service activities together accounted for approximately 5.2% of rates increase.
13. The 5.2% figure reflects the prior year's capital expenditure requirements in core service activities. It excludes the majority of growth-related debt-servicing costs, which are capitalised into development contribution calculations. These commitments leave limited room within a 2–4% rates-growth range for additional services or new investment.
14. Restricting rates revenue does not remove these costs. Instead, it places pressure on future capital programmes and creates a risk of further infrastructure underinvestment. A framework intended to promote financial discipline should not create incentives to underfund depreciation or defer necessary infrastructure.

Revenue constraints also constrain infrastructure financing

15. Rates make up a large proportion of Council's total revenue, while market conditions limit the extent to which revenue from other sources can increase. Constraining revenue growth therefore limits Council's ability to expand borrowing headroom and finance infrastructure needed to bring serviced land to market.

16. 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:
    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.

6. Alignment with housing and infrastructure objectives

17. Council is concerned that rates capping could undermine the Government's objectives for housing development and more flexible land use. Enabling development through resource management settings will not deliver housing if councils cannot afford the infrastructure needed to service that land.

18. Restricting the ability to fund growth and partial-growth capital expenditure through rates may also limit the practical use of other financing tools the Government is encouraging councils to consider. The likely consequences include delays to growth-enabling infrastructure, reduced serviced land supply and a diminished ability to support housing development in high-growth areas.

19. The preferred exclusion of transport and other core infrastructure activities would reduce this conflict. If that approach is not adopted, excluding rates-funded debt servicing and depreciation on core growth assets would address significant costs that arise unavoidably as Council provides infrastructure for a growing city.

Conclusion

20. Council supports meaningful action on rates affordability and accepts accountability for prudent spending and value for money. However, a sustainable framework must also recognise existing financial commitments, the costs of growth and the need to maintain and replace infrastructure. Council seeks the changes outlined in this submission and welcomes constructive work with the Government and communities on funding arrangements that are fair to today's ratepayers while providing the infrastructure future generations need.