RATES RISE KEY MESSAGES

Messages you can use when talking to ratepayers or media.

Why are councils proposing high rates increases?

- Councils are acutely aware they need to balance the need for investment with affordable increases but the pressure has reached tipping point.
- The rates proposed in LTPs fund existing services and essential infrastructure. Councils deliver a huge range of infrastructure and dozens of services, including many that are invisible till something goes wrong.
- **All councils are facing increasing costs for existing assets and services** due to:
    - Inflation
    - Costs of servicing debt
    - Increasing insurance costs
    - Audit costs
- **Councils also face new pressures that require new spending**:
    - meeting the demand for infrastructure in high-growth areas
    - coping with growth in tourism
    - adapting to climate change and increasing natural hazards
    - transitioning to a low carbon economy
    - emerging biosecurity threats
- **At the same time, councils are tackling historic underinvestment**:
    - Most councils are at the point where 'sweating assets' or underinvestment in new assets would impact on services – and community tolerance of service failure is low.
    - This is compounded if capital investment was deferred during Covid.
- **And councils face ever-increasing unfunded mandates from Central Government**
    - For example, estimated upfront costs to all councils of complying with the National Policy Statement for Freshwater Management were estimated at between $1.4 and $2.1 billion, followed by ongoing costs of up to $59 million a year.
- **The funding system is broken**
    - Councils' share of overall tax revenue has remained at just 2% of GDP for the last 50 years, despite our ever-increasing responsibilities. That's not sustainable.

What's really going on with council costs?

- LGNZ commissioned Infometrics to investigate what's driving proposed rates increases.
- **Infometrics found civil construction costs are up 27% over the last three years** (compared to 19% for consumer price inflation):
    - Bridges are 38% more expensive to build.

    - Sewerage systems are 30% more expensive.
    - Roads and water supply systems are 27% more expensive.
- **There's now a 20%+ gap between actual and anticipated civil construction costs**.
    - Over the past three years, capital projects committed to in 2021 Long-term Plans cost $2.4 billion more than expected.
    - Over the full 10-year cycle, councils now need to find another $11 billion to fund capital investment planned in their 2021 LTP.
    - Planned capital investment covers essential services like solid waste, stormwater, transport, wastewater and water supply.
- Treasury and the Infrastructure Commission estimate New Zealand already has a $210 billion infrastructure deficit. **The local government share of the infrastructure deficit is about $52 billion.**
- A focus by some communities on keeping rates artificially low has added to the infrastructure deficit. Today's councils are working to bring infrastructure up to scratch but it's an uphill battle because rates increases over the past 35 years have been so low.
    - Before 2003, the next largest rates rises were before the 1989 local government amalgamation.
    - **Between 2002-2022, the average rates rise was only 5.7%.**
    - Rates rises averaged 9.8% in 2023.
- To fund essential infrastructure, councils are carrying a huge debt and interest burden.
    - **Interest payments by councils topped $1.3b in the September 2023 year, up 64% on pre-pandemic payments**. These payments equate to 8.8% of councils' operating income.
    - In comparison, central government spent around 5.3% of Core Crown revenue on interest payments in 202.
- **Local government rates and water supply charges equate to 3.14% of the CPI basket.** They make up a relatively small proportion of overall average household spending.