Ministry for Cities, Environment, Regions & Transport

Regulatory Analysis Summary: Rates Capping Regulator

Decision sought	Cabinet policy decisions on the regulator for rates capping.
Agency responsible	Ministry of Cities, Environment, Regions and Transport.
Portfolio Minister(s)	Minister of Local Government
Date finalised	7 July 2026
Ministry for Regulation tracking number	REG-2186

Brief description of the Minister's regulatory proposal (preferred option) The Minister's preferred option is to appoint a statutory officer who is not the Chief Executive within the Ministry of Cities, Environment, Regions and Transport (MCERT) as the long-term regulator for the rates cap regime.
Summary of the problem definition Cabinet has agreed to institute a rates capping system, with an independent regulator. A decision is now required on which entity should be designated to perform the regulatory function. Selecting an inappropriate institutional model risks undermining the effectiveness, credibility, and efficiency of the rates cap regime and regulator.
Summary of options considered for addressing the problem Options are: 1. Counterfactual – a minimum viable regulator to undertake minimum statutory functions. 2. A statutory officer within the Ministry for Cities, Environment, Regions and Transport (MCERT). 3. The Local Government Commission. 4. The Commerce Commission. Options 2, 3, and 4 are all viable. The analysis in this paper is about trade-offs between them, not their viability.
Is the Minister's preferred option in the Cabinet paper the same as the preferred option in the RAS? Yes.
Summary of the main benefits of the Minister's preferred option The main benefits are: • Strong alignment with local government system and policy functions within MCERT. • Coordination with policy functions and decisions relating to local government spending. • Efficient use of existing structures and lower establishment costs.
Summary of the main costs of the Minister's preferred option The main costs are:

- 9(2)(f)(iv) [redacted] Funding will be required in Budget 2027 to enable MCERT to take on this role.
- Potential (but manageable) conflicts between rates capping function and other portfolio interests.
- Less perceived independence than an arms-length entity.
- Requires development of specialist financial capability.

Does the RAS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

Yes. The preferred option enables effective delivery of regulatory oversight at relatively low cost, with manageable independence risks and high implementation certainty.

Have any potential inconsistencies with the principles of responsible regulation in the Regulatory Standards Act been identified in relation to the Minister's preferred option?

There are inconsistencies with the principles of responsible regulation with the rates cap policy. These are outlined in the Rates Capping Summary of Underpinning Analysis. These are not specific to the question of who the rates capping regulator is

Limitations and constraints on analysis

Condensed timeframes	Yes	Constrained option set	Yes
Legislative constraints	No	Data and evidence gaps	Yes
Ministerial direction	Yes	Other	No
Limited public consultation	Yes		

Summary of limitations and constraints on analysis

Key constraints include:

- Ministerial decisions already taken (regulator is required, MCERT is the interim regulator).
- Public consultation has not been undertaken on who the regulator should be. It is unlikely that any information would come from public consultation that would materially change the analysis of options in this RAS.
- Limited and indirect feedback from some councils on who the regulator should be, but no public consultation on this question.
- Data and evidence gaps, particularly on compliance costs and behavioural impacts.
- Constrained option set (existing entities only).

What are the implications of these limitations and constraints, and what has been done – or will be done – to mitigate and manage them?

Analysis relies on informed judgment rather than quantified evidence in several areas. The relative comparison between options is more robust than absolute cost-benefit estimates.
Mitigations include:

- Select committee process for the Bill will provide avenue for public consultation.
- A post-implementation review of the rates cap model by the Minister of Local Government is required by legislation to take place within three years of the model's implementation.
- Ongoing monitoring through MCERT stewardship and regulatory reporting.

I am satisfied that, given the available evidence, this RAS represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature: ____________________
Richard Ward

General Manager
9 July 2026

Quality Assurance Statement	
Reviewing Agency: Department of Internal Affairs[1]	**QA rating:** Meets
Panel Comment: Overall this is a well thought through RAS that addresses an important component of a wider policy programme (rates capping as a whole). The panel considers that the RAS meets the defined criteria. It clearly outlines a range of options and selects the preferred one based on sound analysis.	

[1] The Regulatory Analysis Summary was reviewed by the Department of Internal Affairs (DIA)'s panel during the transition of local government policy functions from DIA to MCERT.

Section 1: Diagnosing the policy problem

What is the policy problem?

Context

1. Cabinet has agreed to develop a target range model to limit local authority rates increases in New Zealand (a rates cap). This RAS does not consider the implications of the rates cap, as they are covered by two previous Regulatory Impact Statements.[2]

What decisions has the Government already made?

2. Cabinet has agreed that:[3]
    - The rates cap target range model will set a range for how much councils can increase the average rates price over time.
    - There will be limited flexibility where councils may operate outside the target range if they have an exemption. There will be two main types:[4] (1) exceptional circumstances, such as natural disasters or catastrophic infrastructure failure, approved by the Minister of Local Government; and (2) variations for future financial planning, where local authorities must demonstrate prudent financial management (as determined by a regulator), explain how they will return to the target range, and then consult with their communities on the variation.
    - The rates cap requires regulatory oversight through a long-term regulator.
    - The rate cap will be fully effective from 1 July 2029, but there will be interim regulatory functions from enactment of legislation until 1 July 2029.
3. The proposed roles of the long-term regulator are below. These are largely agreed by Cabinet.[5] Those in *italics* are where the Minister of Local Government has made delegated decisions, which still need to be confirmed by Cabinet.[6]
    - Advise the Minister of Local Government on how to calculate the target range.
    - Review any requests from a local authority for a variation to its rates target range, and
        i. if the variation is to support the response to an exceptional circumstance, provide advice to the Minister as required;
        ii. determine variations for FY 2029/30, on an invitation-only basis;[7] or
        iii. in all other cases, approve or decline the variation after determining a council's financial management (using mandatory statutory considerations).
    - Monitor local authorities' compliance with the rates target range.

[2] Rates-capping-RIS-December-2025.pdf (proactively released 22 December 2025); Rates Capping - Regulatory-Impact-Statement-Rates Target Range Model regulatory design FINAL.pdf - All Documents (not yet proactively released).
[3] ECO-25-MIN-0189, November 2025, CAB-26-MIN-0099.01, March 2026.
[4] There will also be a one-off variation process for FY2029/30 if applying the rates cap would make the council financially unsustainable.
[5] ECO-25-MIN-0189, November 2025, CAB-26-MIN-0099.01, March 2026. Also refer Rates Capping - Regulatory-Impact-Statement-Rates Target Range Model regulatory design FINAL.pdf - All Documents (not yet proactively released).
[6] Using his delegated decision-making power from Cabinet (CAB-26-MIN-0099.01).
[7] FY2029/30 variations for future financial planning reasons will be approved by the interim regulator in early 2027. FY2029/30 variations for any councils at financial risk will be approved by the long-term regulator prior to the council approving its 2029/30 annual plan.

- Direct a council to remake a rating decision if the council adopts a long-term plan with forecast rates outside its target range or adopts a rates resolution that is outside its target range.
- Publish a report every three years on general trends, observations, issues and risks in the implementation of the model.
- Provide guidance material for councils to support the process.
- *Support councils to apply the rates cap during a reorganisation process, including determining whether a reorganisation is significant enough to require the council to follow a reset process for applying the rates cap.*[8]

4. Cabinet has decided that there will be an interim regulator until the long-term regulator is funded and established (no later than January 2028). The interim regulator is to be the chief executive of MCERT. The interim functions will largely be focussed on monitoring councils' rates increases between enactment of legislation and before the rates cap is fully effective from 1 July 2029.
5. The Minister has decided, after consultation with relevant Ministers and under delegated authority that the long-term regulator will be a statutory officer, who is not the chief executive, within MCERT. He has issued drafting instructions for this to be included in the Bill. Cabinet confirmation of that delegated decision is required, and this analysis supports that Cabinet confirmation process.

What oversight of decisions related to rating already exists or is developing?

6. Councils are subject to different layers of oversight:
    - **Local democracy**: The Local Government Act 2002 (LGA) requires councils to explain and justify rates decisions to their communities, who have the option not to return elected members for another term if they disagree with decisions.
    - **Audit**: The Audit Office (AO) provides independent audit and assurance over local authorities' financial statements, long-term plans, and performance information.
    - **Central government stewardship**: The Ministry of Cities, Environment, Regions and Transport (MCERT) has regulatory stewardship responsibilities in collecting and publishing information on councils' long-term plans and performance.[9]
    - **Minister of Local Government**: the Minister has assistance and intervention powers under Part 10 of the LGA.
7. The Government is introducing new economic regulatory oversight for water services and a bespoke regulatory regime for development levies. The Commerce Commission is the regulator for these functions.

Policy problem

8. Cabinet has agreed to a rates cap target range for New Zealand. It has also agreed to establish an independent rates capping regulator.[10] A decision is now required on which entity should be designated to perform this function. This RAS does not consider other aspects of the rates cap policy.
9. Feasible options differ in their independence, capability, cost, credibility. The options involve trade-offs and no single option is expected to perform equally well across all criteria.

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[8] DIA briefing LG202611713, 22 April 2026 refers.
[9] Before 1 July 2026, the local government policy function sat within the Department of Internal Affairs.
[10] ECO-25-MIN-0189, November 2025, CAB-26-MIN-0099.01, March 2026.

10. A decision is therefore needed to identify the regulator that best balances these trade-offs and supports the effective, efficient and proportionate operation of the rates capping regime.
11. Selecting an inappropriate institutional model risks:
    - Weakening the effectiveness and credibility of rates capping decisions.
    - Imposing unnecessary costs or administrative burden on councils and central government.
    - Creating conflicts with the regulator's existing functions or mandate.
    - Reducing confidence in the fairness, transparency, and robustness of the regime.
12. A decision is therefore needed to identify the regulator that best balances these trade-offs and supports the effective, efficient and proportionate operation of the rates capping regime.

What type of problem or opportunity is this?

13. This is an institutional design problem. While the policy intent of rates capping is set, there is uncertainty about the most appropriate institution for administering key elements of the regime. The issue is how to allocate regulatory powers so that the system:
    - Aligns with principles of good regulatory practice.
    - Supports democratic legitimacy at both central and local levels.
    - Can be implemented and sustained over time.

Who are the regulated parties?

14. The 78 local government authorities in New Zealand will be the regulated parties. They will be responsible for implementing and complying with the rates cap target range. The number of regulated parties may change, with structural changes more likely in the near term through the Simplifying Local Government proposal and related work.

Objectives

15. The objective of rates cap policy is to limit rates increases, while still ensuring councils can maintain essential services and plan for future infrastructure needs. The regulatory functions described in paragraph 3 are intended to support this.
16. The objectives for regulatory oversight of the rates cap target range model are to:
    - Provide credible, transparent information about the target ranges for rates increases (including how they are set and whether councils are operating within them);
    - Complement existing processes for community participation in council decision-making;
    - Encourage and support compliance with the target ranges for rates increases;
    - Enable flexibility in exceptional circumstances; and
    - Monitor application of the rates cap against the objectives.[11]

Consultation

Ministerial and agency consultation

17. The features and options for the regulator have been discussed with officials or staff from the Department of the Prime Minister and Cabinet, the Infrastructure Commission, the

[11] This reporting can be used by MCERT, as the policy agency, to suggest areas where Ministerial intervention, or legislative improvements might be warranted.

Local Government Commission, the Ministry of Justice, the Ministry for Business Innovation and Employment, the Ministry for Regulation, the Public Service Commission, and Treasury. The Commerce Commission have provided technical advice on potential costings, and they have reviewed this RAS.

18. Most of the analysis was undertaken by the Department of Internal Affairs before the establishment of MCERT. MCERT's Chief Executive was consulted on options.
19. The Minister of Local Government has consulted with the Minister of Commerce and Consumer Affairs, and the Minister for Infrastructure.

Broader consultation

20. Public consultation has not been undertaken on who the regulator should be. It is unlikely that any information would come from public consultation that would materially change the analysis of options in this RAS, which required technical analysis and costings from the relevant entities who are the subject of each option.
21. Targeted consultation on the specific question of how to set the target range occurred from December 2025 to February 2026. While the submissions largely focused on questions relating to the target range formula (as was the direction), many also touched on the regulatory function. The main themes were that:
    - The regulator should be low administrative and financial cost for councils.
    - The regulator and regulatory functions should be "independent".
22. One submission mentioned that the Commerce Commission should not be the regulator as that would cause confusion given their role in economic regulation of water services.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options with the status quo?

23. The three criteria of effective, efficient and proportionate from section 9(m) of the Regulatory Standards Act are addressed in the criteria below.
24. **Criteria One – appropriate relationship with the Executive and parliament** – Does the entity strike an appropriate balance of responsiveness to Government priorities, providing the Minister with a source of independent advice, and maintaining public confidence in the regulator's decisions?
    - This is a question of institutional independence and legitimacy, as well as balance with the role of the Executive, which goes to *effectiveness* and *proportionality*. The regulator's role is to make decisions, and to provide recommendations to the Minister, depending on the context.
    - There does not necessarily need to be a high level of structural separation between the regulator functions and business as usual advice to the Minister – functional separation may be sufficient.
    - It is important that the relationship between the regulator and the Executive is transparent.
25. **Criteria Two - relevant skillset and expertise** – Does the entity already undertake economic, accounting and financial management analysis, including the specialist area of local government finance, and does it already have regulatory oversight expertise? This is a question of skills and expertise, which goes to *effectiveness*.
26. **Criteria Three - fit with existing purpose (what was the entity created to do?)** – The objective of rates cap policy is to limit rates increases, while still ensuring councils can maintain essential services and plan for future infrastructure needs. The regulatory functions are intended to support this. Are the rates capping regulatory functions

consistent with the entity's statutory purpose, mandate and intended role within the public sector? Do the functions align with what Parliament created the entity to do? This is a question of alignment with the entity's purpose, which goes to *effectiveness*.

27. **Criteria Four** - **compatibility with the entity's other functions**– To what extent can the rates capping regulatory functions be integrated with the entity's existing responsibilities without creating significant conflicts, dilution of focus, reputational risks, or operational disruption? Can efficiencies be gained through shared experiences, systems and resources? This is a question of compatibility and economies of scope, which goes to *efficiency*.
28. **Criteria Five - cost-efficiency** – Is it cost-efficient for the entity to undertake the rates cap regulatory functions, for both central government (including the ability for the regulator to access surge capacity) and for local government (when interacting with the regulator)? This is a question of cost efficiency and burden, which goes to both *efficiency and proportionality*

What scope will options be considered within?

29. Cabinet confirmed that a regulator is needed to oversee the rates cap target range model.[12] Non-regulatory options, like voluntary compliance, were therefore not considered. This also affects the framing of the counterfactual.
30. Based on discussions with relevant government departments, and with the Minister of Local Government's agreement, we have constrained our analysis to existing entities. The Legislation Design and Advisory Committee's Legislation Guidelines note that "Creating a new public body involves considerable expense and should occur only if no pre-existing bodies are capable of performing the new function... In most cases, it is more efficient to give new powers to an existing public body, even if it requires further structural change, than it is to create a new body." In our view, while no existing entity is a perfect fit, there are existing entity options that could be used. The regulator function will also have some peaks and troughs in workload over the regulatory cycle so there needs to be an ability to provide for surge capacity – this is likely to be easier in an entity with other functions than in a standalone entity.
31. The Ministry has considered New South Wales's Independent Pricing and Regulatory Tribunal (IPART) as an example of a rates cap regulator. The rates cap target range model is new and tailored to New Zealand's local government context, so the IPART model has not been considered as a separate option. Lessons and information from IPART have been used to consider the scale of resourcing that may be needed to fulfil the regulatory functions.
32. All options will require central government funding as these are new regulatory functions. Cost estimates are included in the options. These are all excluding GST.
33. Cost estimates for the options set out below were prepared before two additional functions for the regulator were added, specifically:
    - assessing and deciding 2029/30 variation applications for any financially-at risk councils (if required); and
    - supporting councils to apply the rates cap as part of a reorganisation process (including determining whether minor reorganisations are significant enough to require a baseline reset for the rates cap calculations).

[12] ECO-25-MIN-0189, November 2025.

34. While there will be some additional cost involved in carrying out these functions, which would be reflected in all of the options, in our view this does not materially affect the comparison between the options below.
35. Cost estimates also do not include the costs associated with any judicial reviews of a regulator's decisions.
36. No existing entity has the full range of specialist expertise and IT systems required to carry out the regulator's functions. Any entity tasked with the regulator functions will need to build this capability, to varying degrees.

What options are being considered?

Option One – Counterfactual

37. Under this option, the regulatory functions exist, and they are carried out by the interim regulator, as per Cabinet decisions. Cabinet has agreed that the interim regulator will be the chief executive of MCERT.
38. The counterfactual assumes that the regulatory function is operational, including through an interim arrangement, but without a long-term institutional model or strengthened governance arrangements, independence, and capability. It is likely that the functions will therefore be undertaken by the local government policy function within MCERT, rather than a separate function.
39. The regulator would be required to meet minimum statutory requirements only.
40. The strengths of this option are:
    - Alignment with Cabinet decisions.
    - Provides a neutral benchmark that supports a robust option analysis.
    - Reflects real implementation context.
    - Avoids bias toward any single option.
41. The limitations of this option are:
    - Analytical construct rather than a real-world steady state.
    - Less tangible than a concrete institutional model.
    - Assumes a functioning baseline, which we do not yet have.
42. This counterfactual reflects a neutral baseline against which the relative costs, benefits, and risks of different institutional arrangements can be assessed. It is an analytical construct because Cabinet has already made a foundational decision.

Option Two – Statutory officer within MCERT (preferred option)

43. Under this option, the regulatory functions, outlined in paragraph 3, would be exercised by a statutory officer within MCERT. MCERT brings together key agencies that "shape how our towns, cities and regions grow and develop."[13] The intention is that MCERT will "help boost growth and productivity by reducing duplication and complexity, and by creating a simpler and more responsive public service" and be a "one-stop shop" for local government to deal with on complex challenges.[14]
44. The statutory officer would have independent decision-making authority for regulatory functions, while remaining administratively supported by the department. Under this option, the statutory officer will be someone other than the chief executive of MCERT (as per the counterfactual). There are existing examples of statutory officer roles for regulator functions, such as the Official Assignee as the statutory officer responsible for

[13] Bill passed to pave way for MCERT | Beehive.govt.nz.
[14] New ministry to deliver better housing, transport, and environmental outcomes | Beehive.govt.nz.

administering bankruptcies, investigating insolvent estates and exercising powers like examining debtors and recovering assets.[15]

45. Operational separation would be maintained between regulatory decision-making and policy advice functions within the department, reinforced by the statutory officer being separate to the chief executive. “Back-office” functions would be provided by MCERT.

46. The strengths of this option are:
    - Strong alignment with local government system and policy functions, as MCERT houses the Government’s local government policy functions.
    - Coordination with policy functions and decisions relating to significant local government spending and reason for rates increases (transport, resource management, housing) as MCERT houses those central government functions.
    - Efficient use of existing structures and lower establishment costs.
    - Avoids the need for interim and permanent regulator duplication (as Cabinet has confirmed that MCERT will be the interim regulator).
    - Supports integrated system stewardship and feedback loops, as MCERT already provides policy advice to the Minister of Local Government.
    - Supports the Government’s objectives for MCERT to be a one-stop shop for local government.
    - MCERT is subject to parliament scrutiny through select committee scrutiny of annual reviews and estimates.
    - The ability to provide surge support as needed from internal reprioritisation.

47. The limitations of this option are:
    - Potential (but manageable) conflicts between rates capping function and other portfolio interests that rely on co-funding with local government.
    - Lower perceived independence than an arms-length entity, with perception of closer Ministerial influence.
    - Requires development of specialist financial capability.

48. The estimated cost is 9(2)(f)(iv) Costs are associated with the additional functions that MCERT will be required to undertake above existing functions, as well as recruiting and/or contracting specific expertise, and setting up new IT systems to monitor council compliance. Costs are based on other regulatory functions established within the Department of Internal Affairs (MCERT’s predecessor). This option is expected to be relatively simple to implement and carries low delivery risk.

49. This option prioritises cost-efficiency, implementation certainty, and system integration, with a trade-off in perceived independence.

Option Three – Local Government Commission

50. Under this option, the regulatory functions outlined in paragraph 3, would be performed by the Local Government Commission (LGC). The LGC is an independent statutory body established under the LGA, governed by a board appointed by the Minister of Local Government. The LGC was established to make decisions on the structure of local government and to report on local government matters to the Minister of Local Government. They also have a role in promoting good practice relating to a local authority or to local government generally.[16]

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[15] Insolvency Act 2006.

[16] Section 30(2)(b), Local Government Act 2002.

51. The LGC would integrate the rates capping functions alongside its existing responsibilities for local government reorganisation and advisory work. It would exercise decision-making through its board governance structure.
52. An interim regulator (MCERT) would be required until funding is available for the new functions.
53. The strengths of this option are that LGC has:
    - An existing focus on, and relationships with, the local government sector.
    - Experience engaging with councils on complex structural and financial issues.
    - Greater institutional separation from central government than a departmental model.
    - A purpose of promoting effective local government.
54. The limitations of this option are:
    - It would require a shift to a more directive regulatory role, which may affect the LGC's relationships with councils.
    - Potential (but manageable) conflicts with existing statutory functions where the LGC decisions intersect with councils' rating systems.[17]
    - Additional governance complexity associated with a board structure.
    - Not subject to the same level of parliamentary scrutiny as departments or Crown entities, although is required to produce an annual report that is tabled in parliament.
    - Requires an interim regulator, increasing implementation complexity.
55. Estimated costs are similar to the MCERT option 9(2)(f)(iv) , but additional transition costs would arise due to the need for an interim regulator. The costs are based on the LGC's existing operating model of a permanent 'secretariat' supporting an independent decision-making body, with time-limited surge capacity. There may also be additional costs if surge capacity is required. The quantum is hard to determine as some workflows will be hard to predict such as reorganisation proposals and variations to the target range for exceptional circumstances.
56. This option provides greater institutional separation than a departmental regulator and leverages local government expertise, but introduces additional complexity and transition costs. The LGC will also need to move their focus to rates resolutions as well as reorganisations.

Option Four – Commerce Commission

57. Under this option, the Commerce Commission (the Commission) would be responsible for the rates cap regulatory functions, as outlined in paragraph 3. The Commission is an Independent Crown Entity with responsibilities for competition, consumer protection, and economic regulation. The Commission's proposed objectives, as outlined in the Commerce (Commerce Commission Reform) Amendment Bill[18] are to promote:
    - competition in markets for the long-term benefit of consumers in New Zealand;
    - in the case of markets where there is little or no competition, outcomes consistent with outcomes produced in competitive markets for the long-term benefit of consumers in New Zealand; and
    - the confident and informed participation of consumers and businesses in markets.

[17] For example, determining community board arrangements that attract targeted rates, or making reorganisation decisions informed by expected rating impacts.
[18] Currently before select committee and subject to future parliamentary stages.

58. An interim regulator (MCERT) would be required until funding is available for the new functions.
59. The strengths of this option are:
    - The Commission is perceived as having strong independence as a regulator.
    - It has established regulatory capability, including monitoring and enforcement functions for competition and consumer issues.
    - The Commission's activities are scrutinised through the select committee annual review process.
60. The limitations of this option are:
    - Does not align with the Commission's statutory purpose or other functions, which focuses on competition and consumer regulation.
    - The exercise of the regulator's functions will influence local government decision making and community outcomes, a contentious and subjective public policy area that focuses on broader public benefits compared to the Commission's general focus on long-term consumer welfare.
    - The Commission will need to develop new capability in local government finance.
    - The Commission has limited ability to manage the surge capacity required.
    - Higher implementation and delivery risks, particularly given concurrent reforms (e.g. water services and development levies).
    - Potential reputational risk to the Commission's core functions due to closer operational relationship with Ministers, than is so for the Commission's other functions.
    - As with Option Three, more complex transition, requiring an interim regulator.
61. 9(2)(f)(iv)

    Costs are based on the additional resourcing the Commission would require to take on new functions to administer, monitor, and report on the rates capping function. Costs estimates are drawn from another regulatory systems the Commission administers, drawing on similar activities in water, electricity, gas, airport services, and milk price monitoring, with adjustments reflecting the additional number of potential regulated parties and the indicative design of the regulatory process.
62. This option prioritises perceived independence and regulatory credibility, but involves higher cost and potential risks related to organisational fit and delivery.

How do the options compare with the status quo/counterfactual?

Table One: Multi-criteria analysis

	Option One – Counterfactual	Option Two – Statutory officer within MCERT (preferred option)	Option Three – Local Government Commission	Option Four – Commerce Commission
Appropriate relationship with the Executive/ parliament	0 Statutory officer is the CE of MCERT. Close connection to Minister and parliamentary scrutiny.	+ More independence with separate statutory officer. Close connection to Minister and parliamentary scrutiny.	+ More arms-length, increased perceived impendence. Less parliamentary scrutiny.	+ Structural independence, but less suited to advisory function required by regime.
Current skillset/expertise	0 Local government expertise, knowledge of rates capping system, but not specialist financial expertise.	0 Builds on local government expertise and knowledge of rates capping system, but not specialist financial expertise.	- Local government expertise, but not rates capping or specialist financial expertise.	- Strong analytical capability but limited relevance to local government finance.
Fit with existing purpose	0 MCERT to be "one stop shop" for local government. Focused on local government. No formal regulator.	+ MCERT to be "one stop shop" for local government with focus on local government. Formalised regulatory role.	- Purpose is to promote good local government, but rates resolutions not primary focus.	- Focus on competition and consumer regulation, not questions about public finance or rates resolutions.
Compatibility with other functions	0 Regulator role not formalised. Tension with MCERT's local government policy and stewardship functions.	+ Formal, separate regulator role reduces tensions, but some conflict risks remain.	+ Risk of conflict with reorganisation functions.	- Potential to undermine effectiveness and credibility of existing core functions.
Cost-efficiency	0 No additional costs.	- 9(2)(f)(iv)	-- 9(2)(f)(iv)	--- 9(2)(f)(iv)
Overall assessment	0	+	-	--

Key: ++ Very good + Good 0 Neutral - Poor - - Very poor

Section 3: Cost-benefit analysis

What are the additional costs and benefits of the preferred option in the Cabinet paper?

63. The Minister's preferred option is to appoint a statutory officer, who is not the Chief Executive, within MCERT as the regulator for the rates cap target range model.

Benefits

64. The preferred option provides several additional benefits relative to the counterfactual.
65. A clearly defined statutory regulator with independent decision-making powers increases confidence that the regime will be applied consistently and transparently. This is expected to improve compliance by councils and reduce risks of inconsistent or ad hoc decisions.
66. The regulator enables earlier, rules-based oversight of council behaviour, reducing the need to rely on intervention powers under Part 10 of the LGA.
67. Locating the regulator within MCERT supports consistent interpretation of the regime, alignment with policy settings, and coherent guidance to councils. This is expected to improve implementation efficiency and reduce ambiguity for regulated parties.
68. As MCERT is already the interim regulator, this option avoids duplicative establishment processes and reduces transition complexity. This increases delivery certainty and reduces the risk of disruption to councils.
69. Co-location of regulatory and policy functions enables insights from regulatory activity (for example variation applications, compliance monitoring) to inform ongoing policy development and system improvements.

Costs

70. All options introduce additional costs compared with the counterfactual. With the preferred option, there are direct fiscal costs to central government, 9(2)(f)(iv) to establish and operate the regulator. Estimated costs include setting up the regulator, as opposed to the interim regulator continuing. MCERT will need to build specialist financial and regulatory capability (particularly in local government finance and economic analysis). These costs are front-loaded and included within overall estimates but carry delivery risk. 9(2)(f)(iv)
71. As with all options, there will be ongoing administrative and compliance costs for councils associated with interacting with the regulator, including preparing variation applications and responding to monitoring requirements. These costs are expected to vary depending on council size and activity. Some costs may be passed on to communities such as through increased consultation, compliance activity, or delays in decision-making.
72. Locating the regulator within a government department may reduce perceived independence compared to an arms-length entity. This could affect stakeholder confidence in impartiality, particularly for high-profile or contentious decisions.

Table Two: Cost-Benefit Analysis – Statutory Officer within MCERT

Nature of the benefit/cost to New Zealand	Dollar value of impact (or quantified impact)	Scale of unquantifiable impact	Nature of impact – one-off or ongoing	Source of evidence
Additional benefits of the preferred option compared with the counterfactual				
Improved credibility and enforceability of the rates cap regime.	N/A	**High (moderate – high confidence)** – Clear statutory oversight improves compliance and reduces risk of arbitrary or inconsistent application.	Ongoing	Policy analysis of legitimacy/ effectiveness risks.
Reduced need for reactive Ministerial intervention.	N/A	**Medium-High** – Enables earlier, system-level intervention rather than reliance on ad hoc intervention under Part 10 of the Local Government Act 2002.	Ongoing	Existing oversight limitations.
Consistent and coordinated application of the regime.	N/A	**High (high confidence)** – Integration with MCERT supports coherent guidance, consistent interpretation, and alignment with policy settings so that councils are well supported as they implement the rates cap requirements.	Ongoing	MCERT role and system integration.
Lower transition and implementation complexity.	Avoided duplication of establishment costs (qualitative)	**Medium** – No need for dual interim/permanent regulator arrangements, reducing set-up risk and duplication.	One-off	Interim regulator already assigned to MCERT.
Improved system stewardship and policy feedback loops.	N/A	**Medium** – Co-location of regulatory and policy stewardship functions supports iterative improvement of the regime.	Ongoing	MCERT system role.
Stronger incentives for prudent financial management by councils.	N/A	**Medium-High** – Oversight and enforcement reduce incentives for non-compliance and weak financial planning.	Ongoing	Expected behavioural response.
Total benefits (qualitative)	Not monetised	Overall **moderate-high system benefit** with relatively high delivery certainty.		
Additional costs of the preferred option compared with the counterfactual				

Establishment and operating costs (central government).	9(2)(f)(iv) [redacted][19]	N/A	One-off + ongoing	Cost estimates from departmental analysis.
Administrative and compliance costs for councils.	Not quantified	**Medium** – Ongoing reporting, variation applications, and compliance processes.	One-off + ongoing	Expected regulatory compliance costs.
Capability build (skills and systems).	Included above	**Medium** – Requires development of local government financial expertise and tools.	One-off (front-loaded)	Capability gaps identified.
Indirect costs to ratepayers (through councils).	Not quantified	**Low-Medium** – Potential additional consultation or remediation processes.	Ongoing	Likely second-order effects.
Residual risk to perceived independence.	N/A	**Medium** – Regulator located within a department may be perceived as less independent, potentially reducing public confidence in decisions.	Ongoing	Institutional design trade-off.
Total costs	9(2)(f)(iv) [redacted] + unquantified compliance costs.	**Moderate**		
Net impacts vs counterfactual				
Monetised	9(2)(f)(iv) [redacted]			
Overall assessment		**Benefits likely outweigh costs (qualitative judgement**) – Enables effective delivery of regulatory oversight at relatively low cost, with manageable independence risks and high implementation certainty.		

[19] These are initial cost estimates based on current policy decisions, with a number of caveats because it is difficult to predict the extent of the regulator's role for some functions. Costs will also be higher in the first three years as the regulatory system is established.

Are the benefits of the preferred option in the Cabinet paper expected to exceed the costs?

73. Overall, the preferred option (a statutory officer within MCERT) provides a proportionate and cost-effective approach, with benefits likely to outweigh costs. The option delivers a functioning, credible regulatory regime with relatively low fiscal cost, high implementation certainty, and strong system integration. The key trade-off relates to perceived independence, which is assessed as manageable through the statutory officer model and operational separation within MCERT.

What are the impacts on different groups of the preferred option compared with the counterfactual?

74. The preferred option would have impacts across several groups. The primary effects are described in the table below and relate to increased regulatory oversight, improved system consistency, and additional compliance costs.

Table Three: Distributional Analysis of the preferred option compared with the counterfactual

Affected groups	How they are affected	Description of level of impact(s)	Source of evidence
Local authorities (regulated parties)	Increased administrative and compliance obligations. Greater clarity and consistency in application of rates cap may improve financial planning certainty. Reduced need for reactive Ministerial intervention. MCERT to be a "one-stop shop" for local government engaging with central government. Clear statutory oversight improves compliance and reduces risk of arbitrary or inconsistent application.	**Medium** (mixed impact)	Policy analysis, regulatory roles and functions. Targeted consultation on rates cap target range formula included some commentary of effects on councils.
Ratepayers and communities	Benefit from stronger oversight of council rates decisions and improved transparency. Potential indirect costs through delays, consultation requirements, or pass-through of compliance costs. MCERT may be perceived as less independent, potentially reducing public confidence in decisions.	**Medium-High** (mixed impact)	Policy judgement, expected system effects. Agency feedback.
Māori (iwi, hapū, whānau, Māori organisations)	Improved transparency in council decision-making may support equitable outcomes. Risk that centralised regulatory approach reduces flexibility for councils to respond to Māori priorities.	**Medium** (mixed impact, equity considerations)	Policy analysis, Treaty considerations. Have not been directly consulted.
Central Government	Lower fiscal costs than other options. Strong alignment with local government policy development.	**Medium-High** (net cost)	Cost estimates and system design

Regulator	Required to build new capability. Increased workload alongside other new functions. Transition less complex as MCERT is the interim regulator. Co-location of regulatory and policy stewardship functions can ensure they are mutually reinforcing.	**Medium-High** (negative impact)	Organisational fit and delivery risks.

Conclusion

Which option is the most effective, efficient, and proportionate response to the problem?

75. The preferred option (a statutory officer within MCERT) strikes the best balance of effectiveness, efficiency and proportionate response to providing regulatory oversight for the rates capping framework. The Minister's preferred option is the agency's preferred option.

Section 4: Delivering an option

What are the next steps for implementing the legislation?

76. MCERT has been confirmed as the interim regulator during the transition to a rates cap (from the date of enactment to 30 June 2029). There will be additional functions for MCERT from 2028 to prepare for implementation of the rates cap from 1 July 2029. The regulator function will also need to move from the chief executive of MCERT to a new statutory officer.
77. 9(2)(f)(iv) [redacted].
78. MCERT will need to recruit and/or contract specialist expertise to undertake the additional functions. MCERT will already be undertaking monitoring of local authorities and reporting on key metrics as part of business as usual (and as part of implementing the Local Government (System Improvements) Amendment Bill when enacted). The intention is to use these functions to support regulatory oversight of the rates cap.
79. The key risks relate to unexpectedly high demand for variations, and potential judicial review of regulator decisions. The impact of high demand for variations may be able to be mitigated or managed through good early communication and relationships with councils.
80. As this is a novel regulatory model for New Zealand there is also some risk that the framework may not work as intended or pose some difficulties for the regulator during implementation. The post-implementation review will provide an opportunity for the regulator to highlight those issues for the Minister's attention.

How will the proposal be monitored, evaluated, and reviewed?

81. It is not proposed for the decision on who will be the regulator to be separately reviewed and evaluated. The rates capping system will be reviewed in two ways:
    - A post-implementation review undertaken by the Minister of Local Government will be required by legislation; and
    - MCERT's review of existing legislation as required by Cabinet Circular CO (26) 2 and section 17 of the Regulatory Standards Act 2025.
82. MCERT is also subject to annual parliamentary scrutiny through the select committee annual review process.