Internal Affairs
Te Tari Taiwhenua

Regulatory Impact Statement: Rates target range model regulatory design

Decision sought	Cabinet policy decisions for authority to issue drafting instructions
Agency responsible	Department of Internal Affairs
Proposing Ministers	Minister of Local Government
Date finalised	16 March 2026

The Minister is proposing detailed policy design of a rates target range model to be implemented in New Zealand. The proposal includes an approach to setting and managing the target range that is based on long-run economic indicators and is tuned to regional circumstances. The proposal sets out appropriate decision makers for when local authorities request a variation for exceptional circumstances. Regulatory oversight and engagement arrangements are specified, and a three-year transition is detailed.

Summary: Problem definition and options

What is the policy problem or opportunity? In November 2025 Cabinet agreed, in principle, to a rates target model to limit local authority rates increases. The matters discussed in this regulatory impact statement are a regulatory design problem. There is an opportunity to create a regulatory regime for operating and monitoring the rates target model in a way that delivers the objectives.
What is the policy objective? The objective of rates targeting policy is to limit rates increases, while still ensuring councils can maintain essential services and plan for future infrastructure needs. The system aims to be independent, transparent, cost reflective and responsive to regional differences. In this context, the overall objective for the detailed design of the rates target range model is to provide local authorities with the certainty they need to plan for and provide the services their communities expect. However, the model also needs to be agile enough to respond when exceptional circumstances trigger the need for unforeseen council spending. Intended outcomes include: • more stable and predictable rates increases over time; • greater use of other funding tools; and • stronger public confidence in council decision making.
What policy options have been considered, including any alternatives to regulation? To complete the regulatory design for the rates target range model, DIA considered options to address each of the following issues. *<u>How the rates target range should be set</u>* Option 1: a rates target within which local authorities can increase their rates. The rates target would apply to the price component of rates and have a minimum, midpoint, and maximum, expressed as a percentage increase for rates on a per capital basis. The target will apply to all sources of rates (general, targeted and uniform annual general charges) and all types of councils (regional, territorial and unitary). Option 2: this option makes some high-level adjustments to Option 1, to address concerns raised in targeted consultation. It retains the core features of Option 1, including basing the target range calculation in long-run national economic indicators. The differences with Option 1 relate to the model's accuracy, responsiveness to regional differences and alignment with council planning cycles. This is the Department's preferred option. *<u>Variations to the rates target range</u>* Two options have been considered for who should be the decision maker when local authorities request a variation for exceptional circumstances: Option 1: decision made by the Minister of Local Government. This is the Department's preferred option. Option 2: decision made by the regulator. Two options have been considered as to who the decision maker should be in allowing variations in non-exceptional circumstances for future financial planning: Option 1: decision made by the Minister of Local Government. Option 2: decision made by the regulator. This is the Department's preferred option.

Regulator functional design Three options have been considered for which powers and functions the regulator that oversees the implementation of the rates capping policy should have. Option 1 is a regulator with basic powers and functions. It would deliver the minimum administrative functions necessary for the rates target model to work: calculating and publishing the rates target ranges, monitoring compliance, and publishing guidance to support councils apply the range. It would engage councils on their compliance, make decisions on variation applications, and publish reports on trends. This is marginally the Department's preferred option. Option 2 is a regulator that has, in addition to the basic powers and functions, a quasi-judicial function in directing councils to remedy non-compliance. This is marginally the Minister's preferred option. Option 3 is a regulator that has, in addition to the basic powers and functions, strong powers to impose sanctions or penalties in response to non-compliance. *Rates target package options analysis* Option 1: the status quo of local authorities raising rates within the constraint of public consultation. Option 2: the rates target range package including the Department's preferred approaches to setting the target range, variations, and the regulator design. This is the Department's preferred option.
What consultation has been undertaken? The Department carried out targeted consultation from 3 December 2025 to 4 February 2026 with councils, sector organisations and economic experts. Concerns and suggestions raised during targeted consultation focused on: • the approaches to setting the minimum and maximum of the target range; • ensuring adjustments for regional circumstances; • suggestions on the approach to regulating the target range; • ensuring adjustments for uncertainty in costs, especially at the top end of the target range; and • seeking clarity on what was included in the rates cap. The Minister has adjusted the preferred option to address the concerns raised by stakeholders. We anticipate stakeholders would support the changes.
Is the preferred option in the Cabinet paper the same as preferred option in the RIS? • The rates target package that is recommended in the RIS is the same as what is recommended in the Cabinet paper.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)
Costs of the rates target, as the Minister's preferred option, include the following costs to local authorities and communities. Some of the costs of this model are intended to be mitigated through policy and regulatory design.

- Local authorities will be limited in their ability to raise revenue from rates, which is likely to impact service delivery.
- Potential restrictive effect on infrastructure investment that is funded by rates with local authorities potentially cancelling planned capital works projects in core services.
- A central economic regulator would be needed to have oversight of council spending and to monitor local authorities, calculate the target range issue guidance and advise on variances from the range.
- There will be ongoing costs for local authorities in engaging with the regulator once established.
- Impact on local authority debt and financing costs is attempting to be mitigated through regulatory design.
- Communities will experience lower levels of service in areas outside delivering statutory obligations or increased user fees and charges for these services.

Benefits (Core information)

- Ratepayers save on average $938 per rating unit over seven years.
- Anticipated prioritisation of expenditure to projects with the highest value.
- The rates target is likely to increase the predictability of rates increases for ratepayers.
- Rates target sets expectations that there will always be rates increases, meaning local authorities are likely to face less pressure to set zero percent rates increases.
- Monitoring of council rates increases outside the target range can be an early warning system of financial sustainability issues.
- Regulatory oversight reviews of local authority spending are likely to find opportunities for improvements in service delivery.

Balance of benefits and costs (Core information)

The rates target range model, as a package, has marginal net benefits relative to the status quo. These benefits primarily come from the increased assurance processes from oversight, and the built-in flexibility. While the cap limits councils' ability to directly meet all their communities' preferences using rates revenue, there are mitigations in the design of the model.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Implementing the rates target range model requires amending legislation. Subject to confirmation by Cabinet a Local Government Amendment Bill will be drafted. The Bill is expected to be enacted and effective from 1 January 2027. Cabinet agreed that the rates cap model will be fully effective from 1 July 2029. There will be a transition period between 1 January 2027 and 30 June 2029 to allow councils to adjust to the rates cap. The rates cap implementation timeline set out alongside council planning cycles is set out in a diagram on page 65.

There will be specific arrangements for the transition period. Councils will be required to consider the rates cap, but it will not be mandatory for them to operate within it. This means that they should base the revenue in their 2027 long-term plans consistent with the target and show a plan for getting within the target range by 1 July 2029.

During the transition, a regulator will be needed to:

- monitor councils' rates increases between 1 January 2027 and 1 July 2029;
- provide guidance to councils and central government agencies on the rates cap;
- set the rates target range for 2027–2037; and
- pre-approve variations from the target range for FY 2029/30.

Implementation risks include:

- insufficient funding for the regulator if the Department's work programme is not reprioritised. 9(2)(f)(iv) [redacted]
- there is a delay in the legislative process, which flows into a delay in implementing the rates target;
- there is likely to be only one month between setting the target range for the first time and variation applications being due, this may mean applications are not submitted in time and infrastructure projects are cancelled or delayed. There is currently no mitigation for this risk; and
- cost reconciliation process will mean targets reflect actual costs from preceding period in new three year targets, but because of timing they will be two years out of date. The mitigation is for the two years to be included in the next cost reconciliation process.

Limitations and Constraints on Analysis

Cabinet has limited the scope of analysis to a constraint on councils' ability to raise rates. In April 2025, the Government agreed to proceed with developing a rates cap for New Zealand [ECO-24-MIN-0157]. This followed public announcements that the Government would investigate a rates capping system. Therefore, other options to address all the reasons behind rates rises and increased cost pressures on councils could not be considered. Consultation was limited to a list of stakeholders as agreed to by the Minister and on a specific element of the rates cap model (the formula for setting the target range), as agreed to by Cabinet in November 2025. A constraint was the timeframe for consultation, which was over the 2025/2026 Christmas/New Year period, at a time where stakeholders were also being consulted on other local government reforms. During consultation, local authorities indicated how their spending would change to comply with the rates target. Local authorities would reduce spending in a range of areas, including in core and non-core services. The Minister adjusted the policy proposal to address stakeholder concerns.

This regulatory impact analysis does not address the issue of who should be the permanent regulator for the rates capping system. Further policy work on this is required.

I have read the Regulatory Impact Statement, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:

Richard Ward
General Manager, Local Government Policy, Partnerships and Operations
Department of Internal Affairs

Quality Assurance Statement

Reviewing Agency: Department of Internal Affairs	**QA rating:** Partially meets

Panel Comment:

The panel assessed RIS 2 and the SAR. It considers that the information and analysis in the RIS partially meets the quality assurance criteria. Ratings for each quality assurance criterion are summarised below:

- Clear and concise: meets – although the RIS is a long and technical paper it is clearly structured and written in plain English and is relatively easy to read and understand.
- Convincing: meets - the analysis has been carefully considered and set out and is supported with cost-benefit analysis and evidence. The analysis of the regulatory design options is robust.
- Complete: partially meets - the RIS lacks information on the regulator functional design option. The Department will provide a SAR on this matter.
- Consulted: partially meets - consultation was limited to a list of stakeholders set by the Minister of Local Government. It was carried out at a time (December 2025 - February 2026) when stakeholders were being consulted on other local government reforms.

The primary purpose of a SAR is to analyse at least some matters relating to the future performance of a regulatory proposal in time to inform further possible decisions on its design or operational details (Cabinet Office Circular CO (24) 7 - 16 December 2024).

The panel considers that the SAR, set out as Part 5 of RIS 2, meets this purpose. The SAR provides information on the future performance of Option 2: target range model (referenced in RIS 1) and concludes that Option 2 will have benefits over the status quo. It also provides information on the costs and benefits of the overall policy proposal.

Structure of this RIS

1. The Regulatory Impact Statement for the rates targeting regulatory design is structured in multiple parts to enable clear treatment of detailed options for the regulatory design of a rates target range model and to improve the coherence of the document. The parts are:
    - Part 1: overview;
    - Part 2: how the rates target range should be set;
    - Part 3: variations to the rates target range;
    - Part 4: regulator functional design;
    - Part 5: rates target package options analysis; and
    - Part 6: implementation, monitoring and review.
2. Part 1 sets up the background of the policy, the overarching problem definition, opportunity, and the objectives sought.
3. Parts 2–4 detail the specific issues and options for the detailed design elements of the target range model, relating to the overarching opportunity and objectives. Each issue is structured in the same way:
    - background to the topic;
    - problem / opportunity;
    - options;
    - assessment of the options;
    - preferred option; and
    - impact analysis of preferred option.
4. Part 5 analyses the performance of the rates target proposal and provides reassurance that risks will be mitigated. This fulfils the supplementary impact analysis requirements that were triggered when the Department's previous *Regulatory Impact Statement: Rates Capping* was assessed as not meeting quality standards.
5. The final part of this regulatory impact analysis provides information on implementation and monitoring of the preferred option.

Part 1: Overview

7. This Part:

    a. introduces the target range model for rates capping and provides necessary background information;

    b. establishes the overarching opportunity and objectives for the work as a whole; and

    c. provides information about the 2025/2026 targeted consultation.

Cabinet has agreed in-principle to the key elements of a rates target model

8. In November 2025, Cabinet agreed, in principle, to develop a rates cap system based on a target range model.[1] Cabinet agreed to phase in the target range model over a three year transition period. Legislation will be enacted by December 2026 and the full system will be in place by 1 July 2029.

9. To support Cabinet's decision-making, the Department prepared its *Regulatory Impact Statement: Rates Capping* which was proactively released in December 2025.[2] The *Rates Capping* statement set out background information and analysis on four different options for a rates cap:

    a. no rates cap (status quo);

    b. rates target model;

    c. rates cap with exclusions; and

    d. rates cap on all spending.

10. The rates target model was recommended to Cabinet by the Minister of Local Government. In summary, the rates target model would enable local authorities to increase the total rates they collect, but not outside a percentage target range that is set independently. The target range would apply to all sources of rates revenue (uniform annual general charges, general rates, and targeted rates) but not to other sources of revenue (including water charges or water-related targeted rates, development contributions or the growth portion of forthcoming development levies, and fees and user charges). The target range is intended to be determined by a formula anchored in long-run economic indicators such as inflation, nominal gross domestic product (GDP), population growth and productivity. It is expected that the bottom of the range will be around the mid-point of the Reserve Bank of New Zealand (RBNZ) inflation target range, which is from 1 to 3%.

11. The *Rates Capping* regulatory impact statement relied on some assumptions about detailed policy design which were subject to consultation and further testing. Accordingly, Cabinet's agreement to the target range model was in principle and subject to further policy development on the formula for calculating the rates target range, variations from the target range, and the approach to regulatory oversight. These are the matters discussed in this regulatory impact statement.

12. Cabinet invited the Minister for Local Government to report back on those policy design issues in early 2026.

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

[2] *Regulatory Impact Statement: Rates Capping*.

How the regulatory system currently works

Rates and the other funding sources available to local authorities

13. Under the Local Government (Rating) Act 2002 (the Rating Act), local authorities have flexible powers to set, assess, and collect rates to fund their activities. Local authorities can charge general rates, uniform annual general charges, and targeted rates. They can set general rates differentially, meaning they can charge different amounts for different types of land (for example, residential, commercial or rural land). General rates are allocated to properties based on the value of the land or capital value of the land. Properties that have a higher value relative to other properties will often have a larger rates bill. Rates bills are paid by the owners of property; they flow through to the price of rent for people renting property.

14. Local authorities must set rates in accordance with decisions that are made in a transparent and consultative manner and provide information to enable ratepayers to identify and understand their liability for rates.[3] Local authorities set rates in accordance with their long-term plan (LTP) and funding impact statements. The processes for these plans involve community consultation, allowing communities to have a say on what their rates will be, and what services they want their local authorities to deliver. The Rating Act allows local authorities to set rates outside their LTP where there is an unforeseen and urgent need for revenue that cannot be met by other means.[4]

15. Rates represent the largest source of income for local authorities, making up on average 57% of total operating revenue in FY 2023/24.[5] The spread of the range is from 29% in Wairoa up to 78% in Thames-Coromandel. The proportion of revenue from rates depends on the nature of services provided, other assets and investments including dividend streams, and local economic conditions, including central Government contributions following major events.

16. While rates are an important revenue source for local authorities, other revenue sources include sales, user charges, grants, subsidies, vested assets, development contributions, regulatory income, interest, and dividends. Some of these revenue sources have been found to be underused. For example, in its 2019 inquiry into local government funding and financing, the Productivity Commission identified underuse of user charges and recommended that local authorities apply the benefit and exacerbator principles (so those who receive the benefit, or cause the need for a service) to recover marginally more costs from users where it is efficient to do so.[6]

Planning and accountability processes provide communities with regular opportunities to hold local authorities accountable

17. Local authorities' LTP documents detail the services the local authority will provide over the next 10 years, the cost of those services, and other specified information.[7] Key features of LTPs are the:

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[3] Local Government (Rating) Act 2002, s 3.
[4] Local Government (Rating) Act 2002, s 23.
[5] Statistics NZ (2025). "Local authority financial statistics." https://www.stats.govt.nz/information-releases/local-authority-financial-statistics-year-ended-june-2024/.
[6] New Zealand Productivity Commission (2019). "Local Government Funding and Financing." https://www.treasury.govt.nz/publications/local-government-funding-and-financing-productivity-commission-inquiry-material-2018-2019.
[7] Local Government Act 2002, s 93.

a. infrastructure strategy that sets out how the local authority intends to manage its infrastructure assets over thirty years; and

b. revenue and financing policy that sets out policies for how the local authority will fund its capital and operating expenses.

18. Local authorities are held accountable to their communities through LTP consultation processes and at triennial elections. These processes provide opportunities for local authorities to align proposed budgets and rates increases with community expectations.

19. The Office of the Auditor-General reviews local authority financial statements and performance information. The Auditor-General is required by law to issue opinions on councils' LTPs.[8] They are also required to form an opinion on the consultation document that local authorities issue before they finalise their LTPs.

What is the context behind the policy problem?

Cabinet's decisions are in response to multiple, significant rates increases

20. Property rates increases in 2023, 2024 and 2025 were significant and sharp. The median rates increases were 9.35% in FY 2023/24, 14.15% in FY 2024/25, and 9.2% in FY 2025/26.[9] These compare to average annual rates increases from 2% to 8% between FY 2012/13 and FY 2022/23.[10] The table below shows quartile and median rates increases from FY 2023/24 to FY 2025/26.

Statistical measures	2023/24	2024/25	2025/26
Lower quartile (25% mark)	7.42%	11.4%	7.6%
Median	9.35%	14.15%	9.2%
Upper quartile (75% mark)	12.02%	17.45	10.67%

21. Income data from the Household Labour Force Survey (HLFS) shows increases in mean household income of 9.7% in 2022/23, 5.9% in 2023/24, and 0.6% in 2024/25[11]. Driven in part by inflationary pressure, nominal GDP increased at rates of 9.3% in 2022, 9.6% in 2023, and 5.4% in 2024.This means that property rates increases have contributed to increasing cost pressures on households and businesses.

22. In this context, when wages have not kept up with property rates rises, it has been difficult for some ratepayers to plan their finances and local authorities' social licence for taxing their constituents has been diminished. Public reaction to rates increases was in part reflected in 2025 local government elections where, at councils that had approved significant rates increases, some mayors and elected members were voted out.[12]

23. Large rates increases beginning in FY 2023/24 are a deviation from the long-term average. From 1950 until 2015 rates increased at the rate of GDP, tracking at 2% of GDP nationally.[13]

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[8] Local Government Act 2002, ss 84(4) and 94.
[9] Department of Internal Affairs (2025). "Council performance measurement." https://www.dia.govt.nz/local-government-performance-metrics.
[10] Stats NZ (2025). "Local authority statistics." https://infoshare.stats.govt.nz/.
[11] Data sourced from MBIE Regional Economic Activity Web Tool.
[12] J. Milne (11 October 2025). "Ratepayers rout mayors who imposed big rises." *Newsroom*. https://newsroom.co.nz/2025/10/11/ratepayers-rout-mayors-who-imposed-big-rises/.
[13] Review into the Future for Local Government (2023). "He piki tūranga, he piki kotuku." https://www.dia.govt.nz/diawebsite.nsf/Files/Future-for-Local-Government/$file/Te-Arotake_Final-report.pdf.

The cost of building and operating infrastructure has increased significantly, which has contributed to rates increases

24. Local authorities are responsible under the Local Government Act 2002 (LGA) for providing certain infrastructure services. Around two thirds of capital expenditure for local authorities is applied to core infrastructure, not including libraries and other community facilities or parks and reserves.[14] Cost pressures on local authorities to deliver this infrastructure are being driven by capital and operating cost escalation, flowing from supply chain upheaval and a tight labour market during the COVID-19 pandemic, and accelerated headline inflation since 2020[15].

25. Infrastructure costs have long been a major cause of rate increases, largely as local authorities have addressed long periods of underinvestment in local authority infrastructure and maintenance, and increased spending as a result. Local authorities are now needing to upgrade infrastructure, especially for water and wastewater treatment plants, and to invest in more infrastructure to meet population growth demands.

26. Network infrastructure expenditure has fluctuated over time. Infrastructure investment occurs in cycles, with the last significant infrastructure booms in New Zealand from 1927 to 1940 and again after World War II until 1979.[16] The useful life of network infrastructure like water services has typically been 60 to 100 years, suggesting that it is currently time for it to be replaced.[17]

27. Periods of underinvestment have contributed to an infrastructure deficit (i.e., there is a shortfall in quantity and/or quality of infrastructure relative to current demand). The Treasury and the Infrastructure Commission have outlined that to catch up on the infrastructure deficit (i.e., to provide the amount of infrastructure required for the demand we have today, and how demand is projected to grow in the coming years) New Zealand will need a combination of higher spending on infrastructure and more efficient delivery.[18]

28. This catch-up investment is underway and is a contributing factor to recent rates rises. Local authorities have increased capital expenditure on water services infrastructure significantly in each LTP since 2015. Capital expenditure on water services increased by 31% in the 2018 LTP, by 67% in the 2021 LTP, and by 52% in the 2024 LTP. Water service delivery plans show intention to spend $48 billion (capital expenditure) on renewal, level of service improvements, and growth of water services infrastructure over the next 10 years. Analysis of 2024-2034 council LTPs shows:

    a. funding commitments that stem from decisions of previous councils to proceed with strategic capital projects; and

[14] Department of Internal Affairs analysis of forecast and actual capital expenditure for councils based on 2021– 2031 long-term plans and annual reports.
[15] Infometrics: Analysing increases in local government costs, available at: Analysing increases in local government costs v3
[16] Infrastructure Commission (2025). "Nation Building: A Century and a Half of Infrastructure Investment in New Zealand." https://media.umbraco.io/te-waihanga-30-year-strategy/fhlntpbg/te-waihanga-ri-nation-building-final.pdf.
[17] K. Miller (2012). "Urban Water Services: Solutions, Problems and Options." *Policy Quarterly*, Volume 8, Issue 2. https://ojs.victoria.ac.nz/pq/article/view/4413. https://ojs.victoria.ac.nz/pq/article/view/4413/3904.
[18] Sense Partners (2021) "New Zealand's infrastructure challenge: Quantifying the gap and the path to close it." new-zealands-infrastructure-challenge-quantifying-the-gap.pdf

b. multi-year capital expenditure allocation and debt servicing commitments for projects that have been completed.

29. These infrastructure projects (and associated debt servicing and operating costs) need to be funded. Rates revenue has been the primary funding source for the capital expenditure and debt servicing of these projects and the associated operating costs. Rates funding can be offset by user fees and charges or asset recycling (i.e., local authorities review their asset portfolios and sell assets that are not part of providing a core service and are not highly valued by the community).

Local authorities face new funding challenges that contribute to rates increases

30. As well as addressing end-of-life infrastructure, local authorities are responsible for ensuring there is sufficient infrastructure capacity to meet population growth. When a district or city expects population growth, local authorities need to fund and build more infrastructure (for example, wastewater systems) to accommodate more people and homes. Some districts are growing quickly, which places demands on revenue raising.

31. Independent reviews have concluded local authorities face significant funding challenges and need to lift their performance in managing these challenges.[19] The reports noted that this includes making better use of all existing funding tools, not just rates. The funding and finance challenges identified in the reviews are detailed in the previous *Rates Capping* regulatory impact statement in paragraphs 147–169 and include:

    a. addressing the infrastructure deficit, including for high growth regions;

    b. adapting to climate change;

    c. carrying out new responsibilities assigned by government, without new funding;

    d. providing infrastructure to supporting growing number of visitors to regions;

    e. meeting ratepayers' expectations of higher levels of service; and

    f. being subject to external economic factors like the cost of servicing debt, inflation, and insurance prices.

Local authorities are required by a range of legislation to provide certain services

32. A range of legislation requires that local authorities provide certain services. Some local authority activities, like some regulatory functions, are mandated by legislation with a high-level of prescription for how the activity is done. Some are mandated by legislation with a high degree of discretion (i.e., local authorities are responsible for the service, but service delivery levels are decided in consultation with communities through LTPs). Some activities are completely discretionary and decided in consultation with communities through LTPs (e.g., swimming pools).

[19] Independent reports on local government funding include:

- Local Government Rates Inquiry (2007). https://ndhadeliver.natlib.govt.nz/ArcAggregator/arcView/frameView/IE12126512/http://www.dia.govt.nz/Agency-Independent-Inquiry-into-Local-Government-Rates-Index.
- New Zealand Productivity Commission (2019). "Local Government Funding and Financing."
- Review into the Future for Local Government (2023). "He piki tūranga, he piki kōtuku."

Existing financial management obligations have not limited recent rates rises

33. Local authorities are expected to balance maintaining long term financial sustainability (prudence) with responding to the needs of their current communities. These can conflict, where current expectations exceed willingness to pay. Current communities hold local authorities accountable through the democratic process. This has been a recognised conflict for local governments, with work to address this largely focusing on transparent reporting.

34. Under the LGA, the Rating Act, and the Local Government (Financial Reporting and Prudence) Regulations 2014, local authorities must:

    a. manage their financial dealings prudently in a way that promotes the current and future interests of the community;

    b. maintain balanced budgets;

    c. publish a financial strategy that provides context to facilitate consideration of the impact of proposed expenditure on their services, rates, debts and investments;

    d. collect revenue that is sufficient to cover expenditure on activities outlined in their long-term plans; and

    e. publish standardised reporting on prudential spending benchmarks, including a balanced budget requirement, operational and debt control, and debt servicing.

Rates capping policy is in the broader context of reform to reduce costs for local authorities and ratepayers

35. It is a priority for the Government to reduce pressure on ratepayers by progressing reform proposals that will address funding pressure on local authorities. These reforms are at various stages of completion. In the short term these reforms will produce some transition costs for local authorities.

36. With Local Water Done Well, the Government is addressing long-standing water infrastructure challenges, enabling different service delivery models and freeing up debt headroom, while ensuring a strong emphasis on meeting economic, environmental and water quality regulatory requirements. The programme also recognises the importance of local decision making and flexibility for communities and local authorities to determine how their water services will be delivered in the future. Local Water Done Well legislative change concluded in 2025. Local authorities are implementing the legislation now, with local authorities producing water services delivery plans in late 2025.

37. The Local Government (System Improvements) Amendment Bill narrows the focus of local authorities by amending the statutory purpose of local government, gives direction on what services should be prioritised, and increases accountability and transparency of council performance. It is anticipated to be enacted before the 2026 General Election. The rates target range model was designed alongside the Bill and is intended to work in conjunction with the revised purpose of local government to achieve more thorough prioritisation of local authority spending.

38. Resource management reform is intended to make planning simpler and more cost effective for local authorities, developers, and landowners. The cost reductions are largely

driven by streamlining national direction, regional spatial planning, and standardisation.[20] The reform is expected to temporarily increase costs for local authorities while the existing and new systems are both operational. Once the new system is fully implemented, it is expected to significantly reduce administrative and compliance costs.

39. The Government has released a proposal on local government reform. A core element of the *Simplifying Local Government* proposal is to replace the current governance layer at regional councils (separately elected regional councillors) with a board of territorial authority mayors (and potentially Crown Commissioners). If adopted, the proposal would require the board to develop a regional reorganisation plan that sets out how councils within the region will work together more effectively and efficiently. It is expected that these plans will propose institutional changes for local government to provide services more affordably, which could limit rates increases in the future.

40. The Government is shifting to a "growth pays for growth" model for new developments with the Going for Housing Growth programme. As part of this, the Government is giving local authorities new infrastructure funding and financing tools to better enable them to recover the growth costs of infrastructure necessary for new housing development. This will see development contributions replaced with a new development levy tool, and enhancements made to targeted rates. In future, the cost of infrastructure to support growth will be funded by those who benefit from the growth, rather than by the current mix of beneficiaries and all ratepayers. This will reduce pressure on rates.

What is the policy problem or opportunity?

41. In November 2025 Cabinet agreed, in principle, to a rates target model to limit local authority rates increases. The matters discussed in this regulatory impact statement are a regulatory design problem. There is an opportunity to create a regulatory regime for operating and monitoring the rates target model in a way that delivers the objectives.

What objectives are sought in relation to the policy problem?

42. An objective for the overall design of a rates cap system was set by Cabinet in April 2025.[21] Cabinet's intention is that the rates cap is "flexible enough to support our housing growth aspirations and allows us to respond to the infrastructure deficit, while limiting spending on nice-to-haves, with the following principles in mind:

    a. **independent:** determined by an independent authority;

    b. **transparent:** simple for councils and their communities to understand;

    c. **cost-reflective:** accurately reflect cost changes for councils; and

    d. **localised:** considers differences between councils across the country.

43. In this context, the overall objective for the detailed design of the rates target range model is to provide local authorities with the certainty they need to plan for and provide the services their communities expect. The level of certainty must be sufficient for the target range model to be a basis for the development of budgets in 10 year LTPs and longer-term infrastructure investment. However, the model also needs to be agile enough to respond when exceptional circumstances trigger the need for unforeseen council spending.

[20] Castalia (2025). "Economic impact analysis of the proposed resource management reforms." https://environment.govt.nz/publications/economic-impact-analysis-of-the-proposed-resource-management-reforms/.
[21] CAB-25-MIN-0108, April 2025.

44. A secondary objective is to align the rates target range model with existing local government responsibilities and processes.

45. Specific objectives for each component of the detailed design are discussed separately in parts 2–4.

What consultation has been undertaken?

46. Cabinet agreed to seek targeted feedback on the proposed model.[22] The Minister of Local Government approved the list of stakeholders, mostly local authorities, local government sector peak bodies, and economic consultancies. The Department was unable to consult with a wider range of stakeholders or the general public.[23] All councils were consulted, either individually, or through peak sector bodies (Local Government New Zealand and Taituarā).

47. Targeted consultation took place from 3 December 2025 to 4 February 2026. The focus of consultation was how to set the target range. The Department wrote to stakeholders enclosing a proposed target range formula and background information.

Limitations on consultation

48. Consultation was limited to a list of stakeholders as approved by the Minister. In November 2025, Cabinet agreed that the consultation was to be limited to a specific element of the rates cap model (the formula for setting the target range). A further limitation was the timeframe for consultation, which was over the 2025/2026 Christmas/New Year period, at a time where stakeholders were also being consulted on other local government reforms.

Proposed formula

49. The proposed formula is expressed in Figure 1, based on a per capita, price basis for a fixed basket of council services:

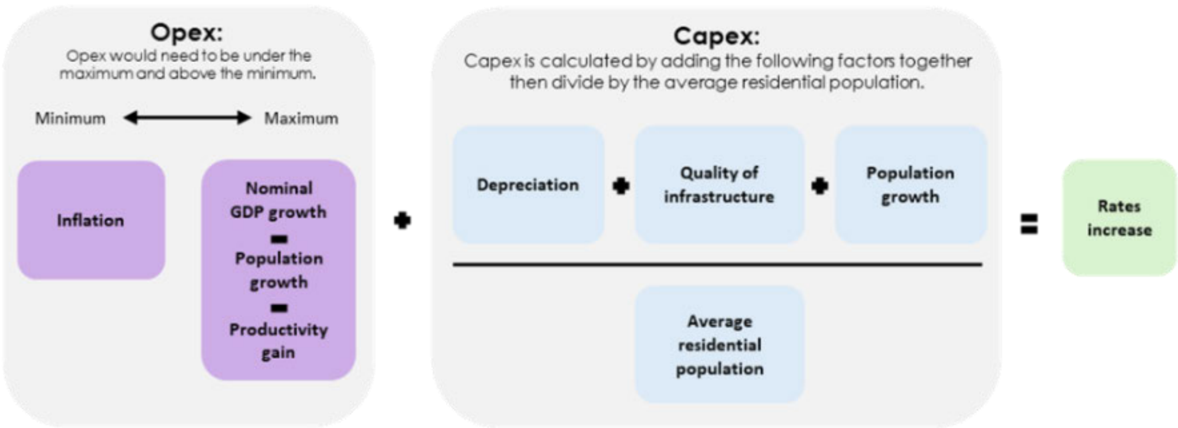

Figure 1: Proposed rates target formula

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

[23] Stakeholders were: peak sector bodies (Local Government New Zealand (LGNZ) and Taituarā), councils that are not members of LGNZ, the New Zealand Initiative, the New Zealand Taxpayers' Union (NZTU), New Zealand Council of Trade Unions (NZCTU), Infrastructure New Zealand, New Zealand Institute of Economic Research (NZIER), Business and Economic Research Ltd. (BERL), Infometrics, Federated Farmers of New Zealand, Te Uru Kahika – Regional and Unitary Council Aotearoa. Insight Economics and Motu Research were also contacted but were unable to engage.

50. In a future 'steady state'[24], where investment is constant as a share of GDP, the infrastructure deficit has been addressed, and the share of operational spending to capital spending is constant, these factors should apply for both capital and operational spending.

51. To allow comparison with a price index, council capital expenditure is based on a per person or per rating unit basis and should:

    a. be sufficient to replace worn out assets (depreciation);

    b. respond to demand for more and improved infrastructure as income rises;

    c. be in line with GDP (quality of infrastructure); and

    d. increase as growth occurs, to cover the need to serve more people.

52. Capital spending to replace worn out assets should be depreciation funded. Rates should cover the increase in standards as GDP increases, and the portion of growth costs that are not recovered from other tools (i.e. from development contributions or the forthcoming development levies regime). This should be in line with the target.

53. Preliminary analysis using this formula suggests that a 2-4% target range for local authority rates is justifiable as a long-run guide and anchor to where rates increases should be.

    a. Choice of minimum: 2% represents the midpoint target band of the RBNZ policy target. The average rate of inflation has been 2.1% since 2002, excluding the Covid-19 inflationary pressure. The average has been 2.6% including Covid. Conceptually, this reflects that councils should be maintaining service standards.

    b. Choice of maximum: as a long run anchor we believe council activity should align with national activity or growth, or GDP. Demand for council services should be reasonably in line with rises in GDP. Nominal GDP has increased at an average rate of 5.4% per annum. We analysed growth in population, household formation, and new dwellings (proxies for the rateable base for councils) which were around 1-1.5% per year on average. We also note that productivity growth has averaged to around 0.3% per year for the last decade.[25] Deducting prospective growth in the rateable base, and an allowance for productivity yields around 4% as a per capita/per rating unit increase.

54. This range represents the price component of council rates revenue increases. Councils grow in size over time as they support growth and serve more households and businesses with rates funded services. We will allow for growth in the total rates revenue that a council can collect as a result of this growth.

55. The consultation asked six questions.

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[24] A 'steady state' is a hypothetical about the optimal level of rates as a share of GDP. Historically, rates have been approximately 2% of GDP, with infrastructure issues emerging when councils varied below this trend. As some more councils shift to water charges, total rates as a percentage of GDP are likely to need to be lower, though rates + water charges will need to exceed the historic trend for councils and water services to be financially viable and catch up on historic deficits.

[25] For a full description of NZs Productivity history, see: Treasury paper: The productivity slowdown: implications for the Treasury's forecasts and projections - May 2024

a. Do you agree with the proposed economic indicators to be included in a formula for setting a rates target?

b. If not, what economic indicators do you suggest being included and why?

c. Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards? If not, why not?

d. Does the maximum of the target account for council spending on core services?

e. What council spending will not be able to take place under this target range? Why?

f. Are changes to the target needed to account for variations between regions and councils? What changes do you propose and why?

56. Generally, local authorities and economic consultancies stated opposition to a cap in principle, noting the experience of other jurisdictions. Submitters also emphasised the importance of local democracy and their view that the rates cap should not impinge on this.

Submitters were concerned about the approaches to setting the minimum and maximum of the target range

57. Submitters raised that the bottom of the range, initially based on the midpoint of the RBNZ remit, would be insufficient to meet costs. They suggested a local government cost index (such as that created by BERL for Taituarā) or a Statistics New Zealand index such as the Producers Price Index (PPI) should be used instead 9(2)(ba)(i)). Others suggested no minimum should be set 9(2)(ba)(i) .

58. Submitters suggested that the top of the range should use a sub-series of GDP instead of national GDP growth rates. For example, economic indicators could focus on the role of government as a whole 9(2)(ba)(i) , or focused on a modelled GDP series for territorial authorities (there is no official source, though estimates exist from Infometrics and the Ministry of Business, Innovation and Employment). Some local authorities 9(2)(ba)(i) wanted to keep a productivity metric in the calculation and asked that a premium be added to allow them to catch up on the infrastructure deficit. The Consumers Price Index (CPI) was suggested as a measure for calculating the maximum 9(2)(ba)(i).

59. Submitters were also concerned about uncertainty for how the capital portion of the range is set 9(2)(ba)(i) .

Submitters wanted to see adjustments for regional circumstances

60. Submitters asked that the approach include adjustments for regional differences in incomes, particularly when the GDP growth rate for regions is higher than the country as a whole 9(2)(ba)(i) .

61. They suggested the growth component should use rating units, rather than population to better fit the costs of new services, particularly infrastructure that is supplied to properties 9(2)(ba)(i) .

62. They suggested that there should be an allowance for growth for all councils 9(2)(ba)(i) , with alternative adjustments for growth (such as change in peak population, rather than average residential population for tourism towns).

Submitters made suggestions on the approach to regulating the target range

63. Submitters said the target range should be set over three years (the LTP cycle) rather than annually 9(2)(ba)(i).

64. They suggested the top of the range should not be a hard cap, but instead be a target like the RBNZ target, where councils can operate outside in the short term 9(2)(ba)(i).

65. They suggested implementing the cap earlier, or using the 2026 year as the base year, to disincentivise significant increases in the transition period 9(2)(ba)(i).

Submitters wanted to see adjustments for uncertainty in costs, especially at the top end of the target range

66. Submitters said there should be a process for managing situations of high inflation, where the costs of councils increased faster than the top of the target range. Similarly, some submitters said there should be a catch up that adjusts for the differences between anticipated and actual costs 9(2)(ba)(i).

67. Submitters said interest rate volatility should be addressed, including how this would capture all of the cap for highly leveraged councils, or need to be gamed through hedging that would increase financing costs 9(2)(ba)(i).

68. Submitters said that depreciation should be accounted for, especially in situations where a valuation increase or technology change causes a spike in depreciation expense, and the need for rates increase to meet balanced budget (reporting) requirements 9(2)(ba)(i).

69. Most local authorities said the target range should consider local government's changing responsibilities, because of legislative changes or decisions made by central government.

Submitters wanted clarity on what was included in the rates cap

70. Local authorities 9(2)(ba)(i) asked that voluntary targeted rates, where a group approaches a council to deliver a public good service as part of an agreement with a third party or when set by a local board (in Auckland), should be excluded.

71. Other local authorities and organisations raised that flood protection, roading, or other essential services / network services should not be within the coverage of the cap.

Other issues raised

72. Rather than a cap, the Government should impose limits on the ability of councils to set differential rates 9(2)(ba)(i).

73. Rather than a cap, the Government should focus on the drivers of high rates now, notably inefficient infrastructure delivery 9(2)(ba)(i).

74. Variation consideration should include the level of rates, with a more permissive approach taken for councils with historically low levels of rates 9(2)(ba)(i).

75. Certainty was sought on how fees and charges could be set to enable full cost recovery (for instance, clearly including the cost of capital in cost recovery) 9(2)(ba)(i).

76. A commitment of future central government funding to councils, noting that rates caps overseas have been tied to more central government funding, such as the federal assistance grants in Australia 9(2)(ba)(i).

Part 2: How the rates target range should be set

Background

77. In November 2025, Cabinet agreed in principle to the target model for a rates cap and noted that the proposed rate target model formula is not final and is subject to change following targeted consultation.[26]

78. This part of the regulatory impact analysis considers detailed design options for how the rates target range model should be set, following feedback from consultation.

What decisions has the Government already made?

79. High-level features of the target range model were put to Cabinet in November 2025. These include:

    a. the range will apply to all sources of rates (general rates, targeted rates, uniform annual charges), but excludes water charges and water-related targeted rates, and other non-rates revenue;

    b. the range will apply to the price component of rates, not volume growth;

    c. under the rates cap councils will have discretion to spend rates funding as they currently do. This system does not limit spending to certain services or activities;

    d. the range will be anchored in long-run economic indicators, such as inflation at the lower end and nominal GDP at the higher end;

    e. an additional growth component will be added for some councils.

Problem or opportunity

80. Cabinet has agreed in principle to a target range model for a rates cap. The next decision required is how the target range will be designed.

What type of problem or opportunity is this?

81. This is a regulatory design problem. The principal decision for Ministers at this stage is how to design the target range in legislation to ensure that it functions as intended when implemented at New Zealand's 78 local authorities, and reflects Cabinet's agreed design principles (independent, transparent, cost-reflective, localised).

82. How to calculate the minimum and maximum of the target range will also need Cabinet decisions. Cabinet has agreed in principle to using a formula to calculate these. A formula-based approach to calculating the target range ensures the bounds reflect underlying cost pressures over time, rather than relying on fixed percentage limits that may become outdated, too restrictive, or too permissive. The formula, including the economic indicators used, is a secondary decision after the design features of the target range are agreed. Cabinet will need to make decisions on the formula later in 2026 so that the first target ranges for 2027-2037 can be set.

Who are the stakeholders and what are their interests?

83. Local authorities will be subject to the rates target range. Local authorities have a strong interest in the design of the target range and what the consequences are, in terms of the

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

levels of rates revenue they are able to collect and how limitations on rates income impacts the funding and delivery of services. They have an interest in the target range aligning with how the cost of delivering council services changes over time, in sometimes unpredictable ways. Councils who are in strong asset positions and have rates revenue set at a revenue level that is sufficient will be least affected by a maximum that is too strict. Those councils with assets in poor condition, with rates that are insufficient to meet current commitments will be most affected. Generally, this will mean that those councils who have already committed to significant increases will be least affected by the range coming into effect.

84. Households, ratepayers and communities have an interest in the target range. The target range needs to strike a balance between limiting rates increases and providing the range of services that the community expect. This is also a balance between the financial and service delivery interests of households, ratepayers and communities now and in the future.

85. Credit-rating agencies have an interest in the design of the target range and what this means for the amount of rates revenue local authorities can collect, in relation to their expenditure on services and in relation to their use of debt and capacity to fund the debt repayments.

86. During targeted consultation, councils, economic consultancies and other stakeholders presented views on how the target range should be set. Submitters raised the need for councils to meet actual costs, with most submitters sharing the view that the top of the range would be too strict, and that some clarification or changes to what was covered by the target range was needed. Submitters suggested alternative approaches to the formula for setting the minimum and the maximum of the range. Suggestions included using an index that measures the cost of local government services (such as the BERL LGCI) rather than CPI, using a regional- or district-level measure of GDP growth for the maximum of the range and adjustments to take into account the inaccuracies when forecasting costs such as inflation and interest rates. These will be taken into account when Cabinet makes decisions on the formula later in 2026. Further consultation feedback is summarised in *Part 1: Overview*.

How will the options be assessed?

87. Options will be assessed in the context of the objectives, criteria and scope described below.

Objectives

88. The objective is to establish a target range in a way that provides councils with predictable, evidence-based parameters for long-term planning while allowing sufficient flexibility to respond to variations in cost pressures and changes in demand for services. The rates target range should:

    a. enable local authorities to collect sufficient rates revenue to meet the reasonable costs of delivering core services, maintaining infrastructure, and responding to growth in demand for council services;

    b. be responsive to the differences in circumstances between councils;

    c. enable local authorities to manage unanticipated cost pressures; and

    d. be accessible, transparent, and predictable for councils and ratepayers.

Criteria

89. The options for the design of the rates target range are assessed against the following criteria:

Criteria	Description
Certainty	Local authorities and communities have certainty in what the minimum and maximum limits of the range are over a period of time that provides a stable basis for producing LTPs and planning household budgets.
Localised	Considers differences between councils across the country.
Cost reflective	Accurately reflect cost changes for councils.
Effectiveness	Limiting rates increases while pragmatically adjusting to account for changes in the New Zealand economy in a way that provides budget stability for high value projects.

Scope

90. The scope of the options analysis is limited to assessing competing options for the macro level design of a rates target range. The analysis is confined to high-level design of the target range. Alternative regulatory frameworks, such as a fixed percentage cap or a different model for limiting rates, are out of scope because Cabinet has already agreed in principle to the key features of the target range model.

91. A draft formula was agreed in principle by Cabinet and consulted on through targeted engagement. The exact formula is out of scope for this RIS because decisions on the design of the target range are needed first. Cabinet is not yet being asked to make decisions on the formula or the economic indicators that make up the formula.

What options are being considered?

92. We have considered two options for the high-level design of the rates target range model:

    a. Option 1: basic rates target range model; and

    b. Option 2: calibrated rates target range model.

Option 1: basic rates target range model

93. This option is the proposed target range that Cabinet agreed to in-principle in November 2025 and that was the subject of targeted consultation. It reflects the initial design parameters presented to Cabinet before consultation feedback was received.

94. Under this option, each local authority's annual average rates increase must fall within a target range comprising a minimum and maximum percentage increase. The range applies per-capita and to the price component of rates revenue growth only. This means that as the population increases the total rates revenue increases.

95. The formula for this option uses national long-run economic indicators for both operational and capital expenditure to set a single target range for all local authorities. The minimum would be anchored to an indicator representing underlying cost pressures to enable local authorities to continue to deliver core services. The maximum would be anchored to an indicator representing broader economic growth to enable growth in services alongside population growth, the improvement of services, and the replacement of worn-out assets. Potential economic indicators could include inflation, nominal GDP, population growth, and productivity.

96. By setting the target range with an upper and lower limit, the aim is to ensure that both current and future ratepayers are treated fairly. In setting an upper limit, the aim is to ensure that current ratepayers are not being continually subjected to significant rates increases which have a real and tangible financial effect on the individual ratepayer.

97. Conversely, by setting a lower limit, the aim is to ensure that costs are shared across generations and that local authorities are not setting rates so low as to significantly benefit current ratepayers yet disadvantage future ratepayers.

98. The range would be calculated annually on a per capita basis to reflect underlying productivity and demographic trends.

99. Preliminary analysis by the Department suggested that, based on these long-run indicators, a 2–4% target range could be justified as a long-run guide to future rates increases. This analysis assumed that these rates increases would apply in a "steady state" environment where infrastructure deficits have been addressed and local authorities have access to appropriate funding and financing tools.

100. Variations processes are intended to allow local authorities to exceed the range in exceptional circumstances (as discussed further in *Part 3: variations*).

101. This option was set on an annual basis and at a national level. Councils' costs are assumed to be able to be met by the lower bound, and their sustainable expansion is assumed to be able to be met by the upper bound.

102. This option did not consider when the target range should be set, or that regional adjustments should be made.

Option 2: calibrated rates target range model (preferred)

103. This option makes some high level adjustments to Option 1, to address concerns raised in targeted consultation, and to ensure the design principles agreed to by Cabinet are addressed. It retains the core features of Option 1, including basing the target range calculation in long-run national economic indicators. The differences with Option 1 relate to the model's accuracy, responsiveness and alignment with council planning cycles.

104. The calibrated model differs from Option 1 in the following ways:

   a. **three-year averaging:** the range is applied as an average over the first three years of the LTP, rather than annually. This would mean that local authority rates could increase by more than the maximum in one year, if increases in the other years are low enough to bring the average for the three-year period to within the target range. This would reduce the rate at which variation processes might be required, while maintaining strict regulatory control over how much councils can increase rates;

   b. **cost reconciliation mechanism:** when calculating the target range, the regulator may make adjustments to factor in the difference between the forecast cost increases that were used to set the target range in the preceding cycle, and the actual cost increases that occurred during the preceding cycle. This could add a margin to the subsequent target range or trim the target range if costs were below forecast;

   c. **adjustments for new responsibilities:** in undertaking the cost reconciliation mechanism, the regulator would also take into account any new statutory responsibilities assigned by Government to local authorities and any associated impact on rates revenue. The regulator would do an assessment every three years of the net additional costs imposed on councils. This means the range could be adjusted up or down depending on how responsibilities have changed;

d. **regional differentiation:** the regulator will take into account regional differences when setting the target range. This would mean the target range is different for some councils to reflect that circumstances for local authorities differ, including the extent of the infrastructure deficit and cost of providing a service in that location. Unlike Option 1, this would mean there would not be a single target range for all local authorities;

e. **early publication:** the target range is set and published one year before councils are required to finalise their LTPs.

How do the options compare?

105. The table on the next page assesses the options against the criteria for both situations.

	Option One – basic rates target model	Option Two – calibrated rates target model
Certainty	+ Local authorities know what the range is set at on an annual basis, with guidance for years two–ten.	++ Local authorities and ratepayers know what range is averaged over three years, with guidance for years four-ten. Third parties such as credit rating agencies have certainty that rates revenue can cover actual costs (including new responsibilities).
Localised	- Target range calculation does not factor in regional differences, other than growth in population size.	+ Calculation of target range includes allowances for regional differences at the upper limit. May evolve over time for variation at the lower limit.
Cost reflective	- Calculation based on past series as long run anchors, using the mid-point of the RBNZ remit for inflation as the measure to assess council costs. This does not reflect the actual costs for councils, which are different to households. Does not allow for cost reconciliation process for actual cost variance, instead relying on a reporting requirement and justification to the regulator.	++ Local authorities know their costs can be met when actual cost vary from reasonable forecasts, through the cost reconciliation process.
Effectiveness	- Limits rates to target range, but is not calibrated to local circumstances so may be too restrictive for high growth areas. No adjustment for imperfect forecasting.	++ Limiting rates increases while pragmatically adjusting to account for reasonable but imperfect forecasting.
Overall assessment	-	++

Which option best addresses the problem, meets the policy objective and delivers the highest benefits?

106. Option 1 would be a functional rates target range model that would limit rates increases in a predictable way. The target range is not sufficiently accurate to suit the different circumstances of each local authority, so would be too restrictive, particularly in cases where an area was experiencing higher than average income growth.

107. Option 2 is preferred as it offers the level of calibration that is required to set a range that allows for maintenance of services and growth in the specific circumstances of each region, and to be responsive to new obligations from Government and unexpected actual cost variance. Option 2 engages with the range in funding circumstances across the regions and the inherent uncertainty in budget forecasting and will be a durable mechanism over time.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

108. Yes.

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

Affected groups	**Comment**	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.*	**Evidence Certainty** *High, medium, or low, and explain reasoning in comment column.*
Additional costs of the preferred option compared to taking no action			
Regulated groups (local authorities)	Ongoing limitation in ability to set and collect revenue from rating tools	High (non-monetised)	High
Regulators (Regulator)	A more customised band increases the complexity for a regulator in setting a limit and accounting for changes in responsibilities, though should limit the need for variations processes	Medium (non-monetised)	Medium
Others (communities)	Ongoing limitation to local authorities' revenue could impact service levels and increase user-pays costs	Medium (non-monetised)	Medium
Total monetised costs			

Non-monetised costs		**High–medium**	
Additional benefits of the preferred option compared to the other option			
Regulated groups (local authorities)	More flexibility in being able to go above or below the target range in a given year (so long as it is within range for the three year average); able to recover actual costs; target range more reflective of regional differences	High (non-monetised)	Medium
Regulators (Regulator)	Can apply a target range that is calibrated to regional circumstances, so range more accurately supports collecting sufficient revenue for delivery of core services at each local authority	High (non-monetised	Medium
Others (communities, credit rating agencies, central government agencies)	Certainty for ratepayers in what the target range will be; more certainty for credit rating agencies that local authorities will be able to recover actual costs, like inflation and high interest rates; ability for target range to be adjusted to meet additional costs of Government responsibilities on local authorities	High (non-monetised)	Medium
Total monetised benefits			
Non-monetised benefits		**High**	

Part 3: variations to the rates target range

Background

109. The rates target model agreed in-principle by Cabinet in November 2025 recognises that there may be times when councils need to raise higher rates revenue than what the target range allows. Two situations when variations to the target range might be required were identified:

    a. **situation 1** variations would apply in exceptional circumstances. In these circumstances, variations to the target would be allowed without councils needing to justify those variations. Councils would need to show how they would return to the target over an agreed timeframe; and

    b. **situation 2** variations would apply where councils need to raise revenue for future financial planning that does not fit within the rates target range. If the proposed increases are significant and sustained, councils would need to apply to the decision maker for approval ahead of consultation through the long-term plan (LTP) process. Councils would need to justify variations and explain how they intend to return to the target. As part of justification, councils would need to show that they have met financial management principles under the LGA.

110. Variations are an important safety valve in any rates cap system. Consultation feedback reinforced the need for a clear, consistent and credible process. This part of the regulatory impact analysis considers how applications for variations will be approved.

Situation 1 – variations in exceptional circumstances

111. Situation 1 variations would allow councils to increase rates above the target range for situations that are unpredictable, unforeseen, or extreme; the types of circumstances that have not involved financial planning or that go beyond the reasonable expectation for contingency planning in a local authority's long-term plan. Possible situations of this type would require a response beyond just the council and would include coordination between central and local government. These variations are intended to help a council recover from such an event, in the short to medium term.

112. The definition of whether exceptional circumstances exist will be a factual inquiry in light of the circumstances. Examples of exceptional circumstances could include natural disasters or catastrophic infrastructure failures.

113. Variations are not intended to remove the need for local authorities to plan and budget to meet their responsibilities under current and proposed emergency management and resource management legislation to mitigate the potential impact of natural hazards. This includes reducing risk (through avoidance and mitigation such as managing flood risk through forthcoming adaptation plans under the National Adaptation Framework) as well as having emergency management personnel and the necessary planning arrangements to protect people and property in an emergency and support an effective recovery.

114. However, when exceptional events occur there is likely to be a need for higher levels of spending for recovery, including to repair infrastructure or to support communities and businesses. Higher revenue is therefore also required. The rates target model is not intended to be restrictive in these scenarios where urgent action is necessary.

115. As expenditure to respond to exceptional circumstances is not planned, and because raising rates revenue is an appropriate funding tool in these circumstances, councils will likely need to exceed the upper bound of the target range.

116. The option of only allowing a local authority to become eligible for a variation to the rates target range if a declaration of emergency has been made within the local authority's area has been ruled out. This is because tying funding-related decisions to a declaration is likely to incentivise making a declaration, which would enable certain people to exercise very broad powers under the Civil Defence and Emergency Management Act 2002[27] that can temporarily suspend people's otherwise normal and expected rights and civil liberties. It is not advisable to enable situations where mayors are put under pressure by their electorate (who may not understand the constitutional implications) to declare an emergency because it opens up funding, when the powers are not actually required.

Situation 2 – variations for future financial planning

117. It might be necessary for rates increases at individual councils to fall outside the target range from time to time. There should be an ability for a council to propose rates increases (or decreases) outside the confines of the rates target range, so long as the council has undertaken prudent financial management and community engagement.

118. Section 101 of the LGA sets out financial management principles that a local authority must adhere to. These financial management principles would be used when developing the most appropriate process for applying, and granting, a variation in this case. Anchoring the scheme within the existing framework of the LGA reduces the risk of duplication and inconsistencies.

119. Operating under financially prudent management means councils are reprioritising, using all the funding and financing tools available to them, and getting value for money. It is appropriate to use prudent financial management as a point of reference for whether variation to the rates target range model should be approved because councils need to show they are managing their finances well.

120. One of the reasons why this scenario of variation might arise is because the need to catch up on historic underinvestment. Once investment has levelled out, it is expected that the number of variations for future financial planning would decrease over time.

121. Two checks on the ability of a council to apply rates increases above and beyond the rates target range would apply:

    a. a determination by the decision-maker as to whether the council has prudent financial management; then

    b. community engagement through consultation on the variation.

122. Sequencing the checks in this order means that the consultation documents can include the determination from the decision maker. This means the public will see the council has already proven it is a prudent financial manager. It is also efficient to connect these checks to existing council processes.

Problem or opportunity

123. Cabinet has agreed in principle to allow variations to the rates target range. It now needs to determine who makes the decision on whether the variation is approved or not.

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[27] And under the proposed Emergency Management Bill (No 2) (Government Bill 236–1).

What type of problem or opportunity is this?

124. This is a regulatory design problem. The variations process must allow flexibility in genuine need, without undermining the integrity and discipline of the target range model. There needs to be a clear decision-maker who approves applications for variations to the target range.

125. Enabling a variations process without a decision maker is not an option as it runs counter to the intent of the policy which is to limit rates rises and allow variations only in certain situations.

126. There is also an opportunity to provide local authorities and communities with greater certainty about when variations will be available, how they will be assessed, and what plans are required to return to the rates target over time.

Who are the stakeholders and what are their interests?

127. Local authorities will be subject to the variation process if they apply for one. They have an interest in making sure that the variation process is clear and they understand the application requirements. They also have an interest in the decision that is made and how that decision has been made.

128. Households, ratepayers and communities also have an interest in the variation process. The process needs to be clear for them to understand and to also engage with the consultation process that will occur under Situation 2 when a variation process may be applied for.

129. Credit-rating agencies and lenders have an interest. They need certainty and assurances that the variations process and any decisions made under that process will be clear and understandable.

130. During targeted consultation on the rates target range, submitters mainly focused on the rates target range. When submitters raised the proposal for a variation process, submitters were mainly concerned about how the variation process would work in practice while supporting the variation process in general. Submitters asked about what might or might not be covered by a variation request. Some questions were specific to a region or to the organisation asking the question.

How options will be assessed

131. Options will be assessed in the context of the objectives, criteria and scope described below.

Objectives and outcomes

132. The objectives of the variation process under the rates target model are to:

    a. provide a process that is clear and understandable for local authorities and the community to understand;

    b. provide for decisions that provide a level of certainty in the outcome;

    c. allow for community participation to ensure local authorities are being held to account; and

    d. provide a way for local authorities to get back within the target range within a reasonable time if need be.

Criteria

133. The options for who should be the decision maker in determining if a variation is approved under both Situation 1 and Situation 2 are assessed against the following criteria below:

Criteria	Description
Certainty	Local authorities and communities have certainty in the outcome of the variation process
Independence	The decision maker will make an objective decision based on the facts available to them
Efficiency	The degree to which the option can be implemented quickly by the decision maker and councils, without undue complexity or added costs
Effectiveness	The extent to which the option achieves the policy objective of limiting rates increases, while maintaining sufficient service standards and improving social license.

134. Criteria have been weighted differently for Situation 1. Effectiveness has been weighted higher than the other three criteria because it is important under Situation 1 that rates are limited as is the policy intent but also sufficient service standards are maintained when responding to exceptional circumstances, which may be a natural disaster or something similar. It is important that whomever the decision maker is, is able to balance those two competing interests.

Scope

135. As discussed above, Cabinet has agreed to a variation process. Doing nothing (not having a decision-maker) is not an option. The target range model allows for variations to be made in exceptional circumstances, with options around who should decide if a variation is granted. There would be a net negative if a target range model is introduced without variations being allowed as councils would struggle to meet local needs in times of need.

What options are being considered? Situation 1 – exceptional circumstances

136. Two options have been considered for who should be the decision maker when local authorities request a variation for exceptional circumstances under Situation 1:

    a. Option 1: decision made by the Minister of Local Government; and

    b. Option 2: Decision made by the regulator

Option 1: decision made by the Minister of Local Government (preferred option)

137. Under this option, following an unpredictable, unforeseen or extreme event, the local authority requests a variation from the Minister of Local Government. The Minister then makes a decision. The variation would be approved by the Minister if:

    a. there have been exceptional circumstances; and

    b. a variation to the target range is necessary or desirable to enable the local authority to respond to or recover from exceptional circumstances.

138. The regulator would provide advice to the Minister of Local Government on variation requests.

139. The variation would be timebound, with the council needing to outline a plan to return to the target range. The Minister of Local Government would also be able to grant extensions.

Option 2: decision made by the regulator

140. Under this option, following an unpredictable, unforeseen or extreme event, the local authority applies to the regulator to allow a variation. The regulator then makes a determination on whether the variation should be approved.

141. These determinations would be made by an independent regulator, subject to the regulator considering specific criteria. The regulator would need to determine (with the relevant council):

    a. whether there has been exceptional circumstances;

    b. the amount of the variation (i.e., what percentage increase above the target range will be permitted); and

    c. the plan for returning to the target range over an agreed time.

142. Any variation for exceptional circumstances would be time bound, with a plan to return to the target range over a time period agreed between the council and regulator. The regulator would establish a process for granting extensions to variations as needed.

143. The regulator would keep the Minister of Local Government informed on the outcome of the variation request. A variation request would not need to happen immediately following the occurrence of exceptional circumstances.

What options are being considered? Situation 2 – future financial planning

144. Two options have been considered as to who the decision maker should be in allowing variations for future financial planning under Situation 2:

    a. Option 1: decision made by the Minister of Local Government; and

    b. Option 2: decision made by the regulator.

145. The following process would apply to both options. The decision maker at Step 2 would differ under each option:

    a. Step 1: a local authority applies for a variation one year before they are due to adopt their long-term plan;

    b. Step 2: the decision maker assesses whether the local authority's variation can proceed to consultation. The assessment will be based on the local authority's financial management. This will involve discussions with the council. It will also include discussions on how to return to the target range over an agreed timeframe;

    c. Step 3: the variation application is either accepted or declined. If accepted, the local authority can consult on the variation. If declined, the council can resubmit the application with improvements (or work with the regulator on improvements if the regulator is the decision maker); and

    d. Step 4: following public consultation, the decision on whether to proceed with the proposed variation to the rates target range sits with the local authority. If a local authority decides to proceed with a variation that does not have community backing, they will be subject to the same democratic checks as they are now, albeit with additional information disclosure and transparency.

146. As variations are aligned with councils' existing long-term plans processes, councils will only be able to apply for variations every three years, and that variations should rarely last longer than three years. The threshold for a variation will be high as councils will, generally, be expected to operate within the rates target range.

147. Having the regulator as the decision maker is the preferred option.

Assessing "prudent financial management"

148. The decision maker would have some discretion in making this assessment, but would have to have regard to certain statutory considerations. The considerations would be:

    a. how the council has considered the purpose of local government and core services in their financial management approach;

    b. how the council has made use of other funding and financing sources (e.g., fully recovering costs from regulatory services to the extent they are able, including use of the forthcoming development levies system);

    c. whether and how a council has considered the use of asset recycling; and

    d. the plan to return to a target range over an agreed timeframe, and whether the plan for is likely in the agreed timeframe.

149. For variations below the target range, the decision maker will consider how the council is funding depreciation and maintaining assets in accordance with asset management plans.

150. The decision maker should consider the proposal against existing rules and guidance on prudent financial management[28] and the Local Government (Financial Reporting and Prudence) Regulations 2014. For the avoidance of doubt, being prudent for the purposes of rates capping does not only mean compliance with these regulations.

151. The primary legislation will be designed to include the power to specify, in secondary legislation, standards, measures, or other thresholds that must be met to demonstrate prudent financial management in specified circumstances. These prescribed standards, if made, could supplement or eventually replace the decision maker's discretion.

152. The regulator will have more detailed prescribed criteria in primary or secondary legislation, whereas if the Minister is the decision-maker there may be some criteria but also broader discretion to take into account the factors the Minister sees fit.

How do the options compare?

153. The table on the next page assesses the options against the criteria for both situations. The more heavily weighted criteria are marked with dark borders.

[28] Section 101 of the Local Government Act 2002 provides for financial management principles that a local authority must adhere to.

Situation 1 – exceptional circumstances			Situation 2 – future financial planning	
Option 1: decision made by Minister	**Option 2: decision made by the regulator**		**Option 1: decision made by Minister**	**Option 2: decision made by the regulator**
0 The likely outcome of the variation process may be less obvious due to the Minister's broader discretion in whether to approve or decline a variation.	+ The more specified criteria for the regulator means it is easier to assess the likely outcome of the variation in advance.	**Certainty**	**0** The likely outcome of the variation process may be less obvious due to the Minister's broader discretion in whether to approve or decline a variation.	+ The more specified criteria for the regulator means it is easier to assess the likely outcome of the variation in advance.
0 Minister may come under political pressure to make decisions a certain way.	+ A regulator is more likely to be independent as they are not subject to community or political pressures.	**Independ-ence**	**0** Minister may come under political pressure to make decisions a certain way.	+ A regulator is more likely to be independent as they are not subject to community or political pressures.
+ Minister, on advice of the Regulator can make a decision quickly and with all the necessary information in times of responding to a crises which will be important.	**0** The regulator will assess the application based on the criteria and make a decision without undue complexity or costs.	**Efficiency**	**0** Minister, on advice of the Regulator can make a decision without undue complexity or added costs.	**0** The regulator will assess the application based on the criteria and make a decision without undue complexity or costs.
+ Minister ensures combined central and local government recovery planning which may allow financial contributions from across government.	**0** The regulator will be limited to applying the criteria in assessing a request and may have to make trade-offs work with the council to enable them to get back within the rates target range.	**Effective-ness**	+ Having the Minister as the decision maker meets the policy objective. Variation approvals should be used sparingly to not undermine the policy intent of the rates target range.	**0** Having the Regulator as decision maker may not limit the amount of variations that are approved which may undermine the policy intent of the rates target range.
++	+	**Overall**	+	++

Which option best addresses the problem, meets the policy objective and delivers the highest benefits?

Situation 1 – exceptional circumstances

154. Under both options, the variation process is clear and local authorities and the community should know what to expect from the variation process.

155. While the outcome for Option 1 and Option 2 are similar, having the Minister as the decision maker in an emergency recovery situation means Option 1 is more effective. This Option allows the Minister to work across Government and consider the contributions from across government.

156. Allowing the Minister to consider an all-of-government response will help a council respond to the event and get them back within the rates target range within a shorter timeframe without the potential for trade-offs having to be made. The regulator would not have this ability.

157. The regulator will also be involved in advising the Minister of Local Government on variation requests which will provide independent information for the Minister to make their decision which may be released to the public. The Minister won't necessarily have to wait for the regulator's advice to make a decision so could act faster if the Minister deems it necessary, i.e., if there is a catastrophic infrastructure failure.

158. While this option may provide a level of discretion to the Minister to make variations that the regulator would not have, this is mitigated by the fact that variations are only available for exceptional circumstances based on the facts. The criteria the regulator would have to apply could also be more of a constraint to a decision that would benefit from some discretion the Minister could provide.

159.

Situation 2 – future financial planning

160. Option 2 best addresses the opportunity to create a variation process for future financial planning that provides certainty for local authorities and communities.

161. Option 2 does this by setting out a clear process for the regulator to follow and approve a variation. There is a risk under Option 1 that the Minister may use some discretion in making a decision which would not provide certainty to local authorities and the community. There is no need for urgency in a decision as the regulator will have 3 months to make a decision on any variation request received by the council.

162. The regulator will provide an independence that the Minister would not be able to provide is assessing whether or not a variation should be granted based on an objective assessment of the material in front of them. The role of approving these types of variations is closely aligned with the proposed regulator's role in setting the target range (as discussed below) and so it is a coherent fit with the regulator's other responsibilities.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

163. Yes.

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

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups (local authorities)	Ongoing administrative costs for local authorities associated with engaging with and applying for variations.	Medium (non-monetised)	Medium
Regulators (Regulator)	Ongoing operational costs to assess and approve applications (Situation 2) and provide advice to the Minister (Situation 1).	Medium (non-monetised)	Medium
Others (communities)	Indirect of councils having to spend time and money in applying for variations may mean some services are reduced or costs are increased elsewhere. Communities will have to spend time engaging with the process but this is mitigated by it being within the normal LTP process.	Low (non-monetised)	Low
Total monetised costs			
Non-monetised costs		**Low–medium**	
Additional benefits of the preferred option compared to taking no action			
Regulated groups (local authorities)	Improved certainty on when a variation can be granted and how to apply through clear guidance and set criteria.	Medium (non-monetised)	Medium
Regulators (Regulator)	Clear direction on when they are to be used when a variation request is applied for to them or the Minister.	Low (non-monetised)	Medium
Others (communities)	Improved transparency in the process in how the rates target will work and how variations are approved. Community is engaged in the process.	Medium (non-monetised)	Medium
Total monetised benefits			
Non-monetised benefits		**Low–medium**	

Part 4: Regulator functional design

Background

164. In November 2025, Cabinet noted that the rates target range model requires effective regulatory oversight.[29] At present, there is no regulator responsible for monitoring councils' rates rises, although aspects of the local government system related to rating are subject to existing oversight mechanisms.

165. This Part of the regulatory impact analysis considers what roles a future regulator of the target range model should have. It does not consider which agency should hold those roles.

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

166. The Office of the Auditor-General (OAG) provides independent audit and assurance over local authorities' financial statements, long-term plans, and performance information. Its role is to provide Parliament and the public with assurance that councils are accounting properly for public resources and complying with statutory obligations. The OAG may identify systemic risks, weaknesses in financial management, or poor disclosure, but it does not assess the reasonableness of rates decisions.

167. Local democracy is the primary accountability lever for councils' collective rating decisions. Councils are subject to extensive statutory reporting and consultation requirements under the LGA. These processes require councils to explain and justify rates decisions to their communities. If post-consultation rating decisions are unfavourable, voters have the option not to return elected members for another term.

168. The Department of Internal Affairs is the Government's primary policy advisor on local government. As part of its regulatory stewardship responsibilities, the Department collects information published in council LTPs, provides summary information to the Minister, and publishes some information online including as council performance dashboards.

169. The Minister of Local Government has assistance and intervention powers under Part 10 of the LGA. These powers are intended for exceptional circumstances such as a serious failure in governance or management. Options available to the Minister range from requiring information to making Ministerial appointments. Appointees have scaled powers including to act on behalf of the Minister in assisting a local authority (Crown Review Team, Crown Observer, Crown Manager) or to act on behalf of the local authority (Commission). A list of matters relevant to determining what action to take, if any, is required to be regularly published in the *Gazette*. The latest version was published in June 2023.[30]

170. The Government is introducing new regulatory oversight over specified council functions through two policy programmes:

    a. Local Water Done Well established economic regulation of water services by the Commerce Commission built around mandatory information disclosure and potential future price-quality regulation and

    b. Going for Housing Growth will establish a development levy system that will also be overseen by the Commerce Commission. These reforms are in response to councils' growing roles in water and growth infrastructure,

[29] ECO-25-MIN-0189, November 2025.
[30] "Notice Regarding Ministerial Powers of Local Government Assistance and Intervention" (23 June 2023). *New Zealand Gazette*. https://gazette.govt.nz/notice/id/2023-go2697.

stronger monopoly-like characteristics in these areas, and potential role conflicts.

171. The developing role of the Commerce Commission as a regulator of local government is something to consider when determining which agency should be the regulator, although that policy choice is not part of this regulatory impact statement.

What happens if there is not a regulator for the rates target?

172. If the rates target model is progressed without a clearly defined role for a regulator, there is a risk that:

   a. the rates target model will not be applied consistently;

   b. councils will face uncertainty about compliance expectations, and

   c. public confidence in the system will be undermined.

173. In this situation, the effectiveness of the rates cap policy would rely heavily on voluntary compliance and guidance, as well as the existing oversight tools of local democratic accountability and, in extreme circumstances, Ministerial intervention. The establishment of a regulatory function is therefore necessary for the target range model to be implemented.

What decisions has the Government already made?

174. In November 2025, Cabinet agreed in principle to progress a target range model for rates capping and noted that:

   a. the model will be subject to regulatory oversight, with consideration of utilising existing regulators relevant to local government;

   b. further work is needed on regulatory design following decisions on the proposed rates target model;

   c. as part of the regulatory function, councils will be monitored to ensure they are not underinvesting in asset management and maintenance.[31]

175. Cabinet also agreed that the local government policy function (currently at the Department of Internal Affairs but to be at the Ministry for Cities, Environment, Regions and Transport[32] (MCERT) from 1 July 2026) will act as an interim regulator until a permanent regulator is established. It is intended that a permanent regulator will take over on 1 January 2028.[33]

176. In the Department's *Regulatory Impact Statement: Rates Capping*, Cabinet was advised that a Crown regulator for the target range model:

   a. would be likely to find opportunities for improvements in local authority service delivery;

   b. could provide early warnings of financial sustainability issues at local government; and

   c. should have the roles of reviewing and setting the target range, providing an independent assessment to justify limiting local authorities' rates revenue, and imposing a limitation if exceeding the cap is not warranted.

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[31] ECO-25-MIN-0189, November 2025.
[32] Name to be confirmed.
[33] ECO-25-MIN-0189, November 2025.

177. As discussed in *Part 1: Overview*, rates cap regulatory design is part of a wider package of policy reforms through which the Government intends to improve council fiscal discipline. The Local Government (System Improvements) Amendment Bill, which is awaiting its second reading as of early February 2026, has the primary policy objective of reducing pressure on council rates. One of the mechanisms in the Amendment Bill to do this is to improve how council performance is measured and publicised. 9(2)(f)(iv) As well as improving the consistency and transparency of council planning and reporting, the new information disclosure requirements are intended to support the future rates cap regulatory system.

Problem or opportunity

178. The central problem in this part of the regulatory impact statement is how to provide sufficient regulatory oversight for the target range model to be credible and workable. Inappropriate regulation could look like insufficient oversight that undermines the model, or overly prescriptive regulation that imposes disproportionate compliance costs or erodes local democratic accountability.

What type of problem or opportunity is this?

179. This is a regulatory design problem. The rates target range model introduces a new constraint on rates-setting that requires consistent, transparent administration to work as intended. There are functions which must be executed, such as setting the target range for each council based on the formula.

180. In designing the regulatory functions, there are tensions to reconcile:

   a. rates decisions are made by mayors and councillors who have a democratic mandate to make decisions alongside and on behalf of their communities;

   b. rates oversight regulation may result in the displacement of local judgement; and

   c. decisions made by the regulator in a given long-term plan cycle will influence council decision making in future cycles.

181. These tensions arise because the target range model introduces a system-wide benchmark that sits across locally made decisions. The problem therefore concerns how oversight is structured and exercised. A well-designed regulator has an opportunity to:

   a. enable a balance to be met between local discretion and system-wide standards;

   b. ensure that the Government's objectives for the rates capping system are met; and

   c. protect against regulatory drift as the system matures.

Why is intervention required?

182. The target range model creates ongoing functions and risks that existing arrangements are not designed to manage. A regulator could undertake those functions and manage those risks; however, to be effective, it needs a clearly defined role.

183. In contrast, if there were no regulator or the regulator was not set up to succeed, there would likely be a reliance on high-threshold mechanisms, such as Ministerial intervention, to manage any instances of non-compliance.

Who are the stakeholders and what are their interests?

184. Local authorities are the regulated parties. They are subject to the target range. They have an interest in how regulatory oversight is designed and exercised, with particular respect to:

    a. regulatory expectations and processes;

    b. proportionality of compliance and reporting requirements;

    c. preservation of elected members' decision-making authority; and

    d. alignment with existing local government processes, to avoid duplication or conflict.

185. The Department led targeted consultation on the target range model from December 2025 to February 2026. The feedback from this consultation is summarised in *Part 1: Overview*. The intensity of the regulator was not specifically asked about during the targeted consultation. Options for regulatory design that favour monitoring-based oversight as opposed to strong controls are likely to be preferred by elected members and sector representative groups such as Local Government New Zealand, as these options are likely to best preserve local democratic discretion.

186. The Crown will be the regulating party. Regulatory functional design has been developed in a regulator-neutral way. To achieve the policy success of reducing rates rises, Ministers' interest should be in developing a regulatory system that operates as intended, including the early identification of problems, at the lowest cost. Ministers could have roles within the regulatory system; if so, these need to be differentiated from roles held by the regulator.

187. Households, business and communities are affected by rates decisions. They need to have trust and confidence in the regulatory system. The way that the regulator's role is defined can give it credibility that can extend to local authorities and, broadly, to the local government system.

188. Credit-rating agencies and lenders have an interest. They are concerned with predictability of revenue frameworks, transparency of fiscal constraints, and clarity on how exceptions are managed. The design of regulatory roles influences how rates constraints are interpreted in credit assessments and whether uncertainty is priced into borrowing costs. These stakeholders will expect to see clear, rules-based frameworks that deliver consistent outcomes.

189. Existing oversight institutions, like the Office of the Auditor-General, are also stakeholders. The new rates cap regulator will sit alongside the Office of the Auditor-General in providing assurance over council financial planning. Poorly specified roles for the new regulator could create ambiguity or potential overlap between agencies.

Population impacts

190. Regulatory design is not seen to have direct impacts on population groups, but possible indirect impacts include:

    a. a regulator that is overly prescriptive could reduce councils' flexibility to respond to locally specific Māori aspirations or Treaty settlement commitments;

b. a regulator that has wide discretion to allow rates growth above the range maximum is unlikely to support low- and fixed-income families in the way the rates capping policy is intended (i.e., service cuts or increased fees and charges for council services are tools councils could potentially look to use in place of higher rating income, and these could disproportionately impact low- and fixed-income households); and

c. a regulator that cannot adequately account for scale and capacity differences may be unable to support councils starting from a lower total rating position (i.e., councils that have not experienced recent sharp rates rises, but may need sharp rates rises in the future to fund growth or services).

Constitutional impact

191. The design of a regulator function (and the strength of a regulator) impacts local democratic accountability. Rates-setting is one of the core functions of local government on which elected members are held to account. Introducing a regulator role to support a rates cap target range model creates an inherent risk that authority (or the perception of authority) shifts from locally-elected members to a centrally-appointed regulatory body. This is a fundamental change for local government in New Zealand.

192. The impact on local democracy of the rates cap, and the regulator's role in setting and applying the cap to councils, is non-negligible. At the very least, it reframes the context for local, political debate and tightens the scope of council decision-making. The level of regulatory intensity that can be imposed on councils (ranging from light oversight to a strong, interventionist approach) is further nuance for that debate, and could have a lesser or greater impact depending on which option is selected.

How options will be assessed

193. Options will be assessed in the context of the objectives, criteria, and scope described below.

Objectives and outcomes

194. The objective is that the regulator has the powers, tools and functions it needs for the rates target range model to be effective. Secondary objectives are that regulatory processes will:

a. provide credible, transparent information about the target ranges for rates increases (including how they are set and whether councils are operating within them);

b. complement existing processes for community participation in council decision-making;

c. encourage and support compliance with the rates target ranges for rates increases;

d. enable flexibility in exceptional circumstances; and

e. highlight risk areas where Ministerial intervention or legislative improvements may be warranted.

195. Not every possibility for non-compliance needs to be identified in the design of the regulator's role. Existing mechanisms can be relied on, where possible. We expect to see regulatory oversight that delivers these objectives lead to the following outcomes:

a. target ranges are set and variations are approved in accordance with statutory criteria;

b. local authorities and the public have timely information about the target ranges and access to information about how the ranges were set;

c. local authorities can access rules and provide guidance about how to engage with the target range process, their obligations to provide information, and how to apply for a variation;

d. any significant issues with the regulatory framework are identified and notified to the public and the Government; and

e. any significant breaches by individual councils are notified to the public and the Government.

Criteria

196. Options to address this problem will be assessed against the following criteria:

Criteria	Description
Transparency	Are regulatory processes and decisions clear, accessible, and transparent, and how any intervention is triggered and explained?
Certainty	Are regulatory processes and decisions predictable?
Proportionality	Are regulatory functions appropriately scaled and targeted to the risks of non-compliance, and balanced against existing local authority accountability and decision-making arrangements?
Efficiency	Does the regulatory system minimise overall system costs relative to the level of oversight provided?
Effectiveness	Does the regulatory system encourage sustained compliance with the rates target and support the long-term credibility of the framework?

Scope

197. Determining who holds the regulator role is out of scope of this impact analysis. The analysis is about what functions and powers should be available to the future regulator. The issue of who holds those functions and powers will be addressed in a supplementary analysis report.

198. Not having a regulator is not an option. For the target range model to work, a minimum number of regulatory decisions must be made; therefore, there must be a regulatory system that describes how these decisions are to be made and by whom. As discussed above, existing regulatory mechanisms are not designed for these new functions. The absence of a regulator is inconsistent with previous Cabinet decisions and matters discussed earlier in this regulatory impact statement, like setting the target range and considering applications for variations.

199. Other options that have been ruled out are options to create new intervention powers for the Minister of Local Government. As discussed in Part 1, a secondary objective of the proposal is to align the target range model with existing local government legislation. The Department provided high-level advice to the Minister on modifications that could be made to the Minister's intervention mechanisms under Part 10 of the LGA. Previously, a bespoke intervention mechanism was established under Local Water Done Well legislation so that the Minister could intervene in matters related to the development of Water Services Delivery Plans (WSDPs) without impacting the other business of the applicable local authority. The Department briefly considered some options for bespoke interventions for rates capping, but analysis showed these either would not add anything to existing Part 10

mechanisms or could undermine effective council governance. With the Minister's agreement these options were not pursued further.

200. The regulator's functions and powers need to relate to all 78 New Zealand local authorities (and any future local authorities that are established). Based on decisions already made, and the preferred approaches recommended in parts 2 and 3 of this regulatory impact statement, for the regulator to be effective it must have the following functions and powers:

   a. apply the formula, and calculate and publish rates target ranges for each local authority;

   b. publish guidance materials for councils to support compliance;

   c. monitor compliance with the rates target ranges (including direct engagement with councils and publicly reporting on compliance);

   d. administer the variations process and approve council requests for Situation 2 variations from the rates target range;

   e. notify the Minister of Local Government and the public if a council sets its rates outside the target range; and

   f. publicly report on trends, risks, observations, and issues in the implementation of the rates target model every three years.

201. The scope for the options is therefore any additional powers and functions to strengthen the regulator's role.

What options are being considered?

Option 1: regulator has default powers only

202. Under Option 1, the regulator's role would be tightly focused on supporting councils to implement the rates target range mechanism and would be tightly focused on supporting councils to implement the rates target range mechanism and to encourage compliance. The regulator would have the functions and powers listed at paragraph 200 above. These are a mixture of administrative functions and decision-making powers.

203. In relation to the matters discussed in part 2 of this regulatory impact statement, the regulator would set and publish the target range for each council and support compliance (including by monitoring councils and issuing guidance). Council engagement is expected to be early and advisory (for example, if unintentional non-compliance is identified before a council's LTP is approved, the regulator can support the council to get back into the range).

204. Compliance monitoring would be based on council-supplied information and an assessment of whether rates rises are inside the target range, which the regulator will have set. If a council unlawfully set its rates outside the rates target range, the regulator would identify and publish this information, and notify the Minister. A statutory requirement to disclose specified information[34] to the regulator is required to ensure the regulator can

[34] Based on the formula proposed in *Part 2: Formula*, the specified information will need to include councils' estimates of growth in rating units. Other information will be required to be shared by Government agencies, such as population forecasts developed by Statistics New Zealand. Information disclosure requirements will need to set out details including form, content, any verification requirements and timeframes. These requirements could be set by the Government through regulations or by the permanent regulator. Because there will be an interim regulator, a regulation-setting power is required regardless.

access the information needed to carry out its functions, such as calculating the rates target ranges, and to support public trust and confidence in the decisions made. The potential legal and reputational risk for councils from not lawfully setting their rates would be the primary compliance mechanism.

205. In relation to the matters discussed in part 3 of this regulatory impact statement, the regulator would receive requests from councils for variations to the rates target for future financial planning purposes. The regulator would determine, in accordance with the regulatory framework, which councils should be approved to consult their communities on rates rises outside the target range and how councils will return to the target range over time.

206. Because the regulator doesn't have tools to respond to unlawful rate setting, existing potential consequences would apply. Anyone could seek judicial review of the rates resolution on the basis it was unlawful. Potential relief would include the court quashing the rates resolution and ordering the council to remake the decision.

207. In addition, Ministerial intervention could be warranted if the statutory tests are met. The Department expects the regulator would notify the Minister of a council's non-compliance and the Minister will seek advice from MCERT on statutory intervention mechanisms. Intervention under Part 10 of the LGA is a high-threshold response; not every type of intervention may be suitable for all situations.

208. It is expected that the three-year averaging approach to setting the target range, the regulator's early engagement with councils, and the legal risks of having their rates declared invalid would create a strong incentive on councils to comply with the law. While significant and ongoing breaches are still theoretically possible, there exist mechanisms to respond to these.

209. Having the ability to report on trends and risks sits alongside the regulator's guidance function to support learning across the sector and to inform Ministers of whether emerging trends and risks, including whether changes to the operation of the rates target model may warrant consideration.

Option 2: regulator directs remediation

210. Under this option, the regulator has the powers described in Option 1. In addition, the regulator would be given the power to direct a council to fix an LTP with forecast rates outside the target range or a rates resolution that puts the council outside the 3-year target range average.

211. This provides a faster and more direct route to a remedy, rather than relying on individuals or groups to have the resources for a judicial review action. It would further strengthen the disincentives for councils to unlawfully set the rates outside the target range because of the very high likelihood they would have to incur the additional cost to fix it.

212. It would be a quasi-judicial function for the regulator to determine, and direct a council to remedy, an illegality.

213. There is no need for an assessment or evidence of intent. The action is taken on the basis of the illegality – not whether it was intentional or unintentional. This reduces the legal risk for the regulator. The application of discretion by the regulator is intended to mitigate any risk that the cost of the remedy may outweigh the size of the error. For example, legislation could provide that the regulator "may" issue a direction to remedy to the council and that the council could make its own judgement on whether to fix the error, based on an assessment of legal risks.

Option 3: regulator imposes penalties

214. Option 3 is a more directive regulator with strong enforcement powers. The regulator's role would include the powers and functions of Option 1, but with additional authority to take direct action in response to non-compliance with regulatory requirements.

215. Under this option, the regulator would be able to issue formal sanctions (including fines) or impose constraints on future rates decisions where a council has failed to comply with the rates target or the conditions of an approved variation. Enforcement action could include restrictions on allowable future rates increases. That is an enforcement tool available to the Independent Pricing and Regulatory Tribunal (IPART) of New South Wales, which is the regulator over that state's rates capping scheme. Financial penalties would have a punitive effect on the ratepayer, who would ultimately have to bear these costs.

216. This option would involve a more formal and prescriptive regulatory relationship between councils and the regulator. Regulatory intervention would be more likely to occur after non-compliance has been established, with compliance driven primarily through enforcement mechanisms rather than early engagement or advisory support. Because intervention is led through the regulator, Ministers would be more hands-off.

217. This approach represents a shift in accountability for rates-setting outcomes. The compliance mechanism of further restricting future rates rises, described above, gives the regulator a stronger role in controlling local authority behaviour. It is also likely to increase regulatory complexity, system costs, and the likelihood of disputes.

How do the options compare?

218. The table on the next page assess each option against the criteria.

219. As discussed above, doing nothing is not an option. The rates target range model depends on there being some regulatory function, with options around how that is designed. Therefore, the status quo is not included this table. We consider that if nothing is done there would be a net negative outcome because the rates target range model will not be able to be effectively implemented.

Criterion	Option 1: Regulator has default powers only	Option 2: Regulator directs remediation	Option 3: Regulator imposes penalties
Transparent	+ Provides clear, publicly visible rules, guidance and reporting. Accountability is easy to observe and understand.	+ Clear and transparent, with easy to understand thresholds about when remediation mechanism may be triggered.	+ Provides transparency around regulatory decisions and enforcement actions, but complexities of penalties may reduce overall understanding of the regulator's function.
Certain	+ Provides greater certainty through defined roles and early engagement. Relies on judicial review or Part 10 intervention pathways, rather than an assured remedy route.	++ Enabling regulator to require correction provides a predictable and timely remedy, reducing reliance on judicial review and Part 10 interventions.	+ Provides high certainty about consequences of non-compliance, but at increased cost.
Proportionate	++ Decision rights confined to certain matters presents a balanced approach. Regulator would work with local authorities to support local democratic accountability.	+ Proportionate relative to penalties, as remediation powers are tightly targeted to unlawful decisions. Directing councils to remedy decisions represents a greater intrusion into democratic process vs Option 1.	- A high-intensity regulatory approach. There is a risk of disproportionate intervention and regulatory overreach across local democratic accountability.
Efficient	+ Costs of additional regulatory activity are offset by expected system efficiency improvements by reducing uncertainty, avoiding ad hoc escalation, and providing a predictable pathway for managing variations.	0 Marginally higher costs than Option 1. However, these may be partly offset at a system level by reduced reliance on judicial review and Part 10 intervention.	- High compliance, assurance, and capability costs for both councils and the regulator, with increased risk of disputes and procedural complexity. A high cost model.
Effective	+ Encourages sustained compliance through engagement, transparency and reputational incentives, but with weaker tools to directly compel compliance.	++ Stronger regulatory compliance tools mean the rates capping system will have more credibility.	0 Likely to drive short-term compliance through enforcement, but risks undermining long-term credibility and cooperation.
Overall assessment	+ ***Department of Internal Affairs preference***	+ ***Minister of Local Government preference***	0

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

220. Option 1 and Option 2 both provide net benefits of equivalent value, but they achieve this in different ways. Option 1 performs best if it is preferred to preserve proportionality of regulatory responses and minimise costs, while still ensuring strong transparency. Option 2 performs better at increasing certainty and strengthening credibility of the rates capping system by providing a direct, timely remediation pathway for rates-setting decisions outside the target range.

221. Option 3 performs less well due to its increased cost and risk of regulatory overreach.

222. In considering the options, the Department marginally prefers Option 1 because it is lower cost and supports local democratic accountability. The Department considers that existing mechanisms for disincentivising unlawful rates-setting are appropriate for the rates capping system. The Minister prefers Option 2 because it provides stronger assurance that unlawful rates-setting can be corrected in a timely way.

Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

223. No.

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

Affected groups	Comments	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Regulated groups (local authorities)	Ongoing administrative and compliance costs associated with responding to compliance monitoring, preparing information to support variation applications, and, where required, remedying an unlawful long-term plan or rates resolution following a direction from the regulator. One-off familiarisation costs are expected as councils adapt to the new regulatory role and processes. Costs are expected to vary by council size and complexity, and by the frequency with which councils seek variations.	Medium (non-monetised)	Medium
Regulators (Crown)	Ongoing operating costs for the regulator, including staff, systems, guidance, council engagement and reporting. One-off establishment costs	9(2)(f)(iv) [redacted]	Medium

[35] This is the higher end of estimated costs and is based on some assumptions about the indicative design of the regulatory system, and estimates of, for example, the number of variation applications. It does not include the costs of any judicial review proceedings relating to the regulator's decisions.

	are also expected. Costs will vary depending on workload assumptions.		
Others (consumers)	Indirect costs of council compliance (including any remediation costs) will fall onto ratepayers. Costs might include revised or repeated consultation processes and delays to planned expenditure. Communities may experience short-term disruption or consultation fatigue where remedial action is required.	Low–medium (non-monetised)	Low
Total monetised costs		9(2)(f)(iv) [redacted]	
Non-monetised costs		**Medium**	
Additional benefits of the preferred option compared to taking no action			
Regulated groups (local authorities)	Improved certainty about regulatory expectations and consequences. Reduced reliance on third-party judicial review to resolve compliance issues. Stronger incentives for councils to ensure rates-setting decisions are legally compliant.	High (non-monetised)	Medium
Regulators (Crown)	Clear statutory role and decision rights improve the regulator's ability to monitor the system, manage risks, and provide Ministers with timely, system-level intelligence. Reduced need for reactive Ministerial intervention due to remediation mechanism.	Medium (non-monetised)	Medium
Others (consumers)	Greater confidence that the rates target range will be applied consistently and that non-compliance will be addressed in a timely way. Improved predictability of rates-setting outcomes supports public confidence and may reduce uncertainty for credit-rating agencies assessing council revenue frameworks. Regulatory design continues roles for local democratic accountability.	Medium (non-monetised) alongside potential future rates savings	
Total monetised benefits			
Non-monetised benefits		**Medium–high**	

Part 5: rates target package options analysis

224. In November 2025 Cabinet considered a policy proposal to establish a rates target model for New Zealand. The Department's *Regulatory Impact Statement: Rates Capping*, which was prepared to support Cabinet's consideration of the policy proposal, was assessed as not meeting the quality assurance criteria. The reasons are set out below. This means that a supplementary impact analysis is required to analyse the performance of the rates target proposal and provide reassurance that risks will be mitigated.

225. This part provides supplementary analysis of the impact of the rates target model, assuming the inclusion of the preferred option for each of the detailed design elements discussed in parts 2–4.

Quality Assurance Statement	
Reviewing Agency: Department of Internal Affairs	**QA rating:** The panel considers that the information and analysis summarised in the regulatory impact statement (RIS) does not meet the quality assurance criteria.

Panel Comment:

The RIS deals with a narrow range of options constrained by prior Cabinet decisions and Government announcements, in an extremely complex area (local government financial management). There is a mismatch between the problem identified by Ministers (lack of fiscal discipline by local authorities), the evidence available (highlighting a range of unavoidable cost pressures), and the limitations on options imposed by prior decisions (rates limitation mechanisms).

Furthermore, the RIS has been prepared and Quality Assessed within a constrained and accelerated timeframe which has not allowed sufficient time to identify and address all issues required to produce a coherent final document. No public or stakeholder consultation on the problem definition, policy objectives or assessed options has been undertaken.

The initial analysis in the RIS does focus on a credible problem statement relating to the impact of recent sudden and high increases in rates liability on ratepayers' ability to plan for and accommodate those costs. The document also identifies the range of pressures and circumstances that have necessitated these increases, and the resulting risks for any attempt to prohibit or regulate such increases. In this context, the RIS makes an adequate case for discounting options three and four in the analysis.

However, the body of the document, and especially the options analysis, fails to maintain a consistent focus on the identified problem and strays at times into discussion of limiting local authority expenditure decisions, rather than rates increases. That discussion also fails to provide a convincing picture of the relationship between rates, annual operating revenue, and the multi-year impacts of strategic capital expenditure and borrowing decisions.

More significantly, the assessment of the costs and benefits of both the status quo and the Minister's preferred option are acknowledged to be dependent on a number of fundamental assumptions. These relate to the impact of other legislative reforms currently before Parliament and, in the case of the preferred option, include assumptions about what can be achieved by future policy work to develop a proposal that is currently incomplete in design and operational detail. While the RIS concludes that there are equivalent costs and benefits between the status quo and the Minister's preferred option, the potential of either option to achieve the stated objectives and avoid identified risks is highly uncertain.

Given this uncertainty, the panel considers that the RIS does not contain sufficient information and analysis to allow Ministers to make a properly informed decision whether to proceed with the Minister's preferred option at this time.

What was the problem that Cabinet considered in 2025?

226. The problem statement in the *Rates Capping* regulatory impact statement was: "Property rates across New Zealand are increasing faster than they have in the past two decades. Significant and sharp rates increases in 2024 and 2025 have made it difficult for ratepayers to plan their finances and reduces community support for how local budgets are set." Cabinet considered options to control how fast property rates can be increased.

What is the context behind the policy problem?

227. The *Rates Capping* regulatory impact statement discussed property rates as a major source of local authority funding and demonstrated that the amount of annual property rates collected nationally has increased particularly from FY 2022/23 to FY 2025/26.

228. The range of pressures and circumstances that have necessitated these increases, and the resulting risks for any attempt to prohibit or regulate such increases, are detailed in the *Rates Capping* regulatory impact statement at paragraphs 22–24 and 147–169 and in part 1 of the *Rates Target Regulatory Design* regulatory impact statement. In summary, these pressures are:

    a. the cost of building and operating infrastructure has increased significantly, which has contributed to rates increases;
    b. addressing the infrastructure deficit, including for high growth areas;
    c. adapting to climate change; and
    d. providing infrastructure to support the growing number of visitors to regions.
    e. carrying out new responsibilities assigned by government, without new funding;
    f. meeting ratepayers' expectations of higher levels of service; and
    g. being subject to external economic factors like the cost of servicing debt, inflation, and insurance prices.

229. When reviewing the *Rates Capping* regulatory impact statement, the quality assurance panel stated that there is a mismatch in the analysis between the evidence of cost pressures, the Minister of Local Government's views that there is a lack of fiscal discipline by local authorities, and a limited set of options for addressing the problem imposed by prior Ministerial direction.

230. As discussed in part 1, recent steep rates increases are driven in part by an increase in the amount of infrastructure delivery and cost pressures on local authorities. Cost pressures are largely coming from the cost of closing the infrastructure gap, the recent high cost of building and operating infrastructure, and growing demand for infrastructure (e.g., from tourism).

231. Inflation has eased and the cost of building infrastructure is forecast to stabilise from 2026.[36] However, local authorities are increasing the amount of infrastructure they are

[36] Business and Economic Research (2023). "Cost Adjusters 2023 Interim Update."

building and maintaining to cater to growing permanent and visitor populations. New Zealand's population is estimated to reach 6.029 million by 2038.[37] The Tourism Growth Roadmap is aiming for the number of international tourists to return to 2019 levels and to double the value of tourism by 2034.[38]

232. The Department anticipates that local authorities will continue to replace infrastructure that was built after World War II, which is now reaching the end of its life, over the next several decades. Local authorities are likely to spread the cost of closing the historical infrastructure deficit over the next few decades, because doing so any faster would likely be unaffordable. These cost pressures are expected to continue for the next several decades.

233. The Government is concerned that steep rates rises are caused by a lack of fiscal discipline at local authorities, and of the impact these rates rises have on ratepayers. The Government has stated that local authority spending is straying too much into projects that are not core council services. The Government contends there is scope for improving the value for money in council spending and that councils need to live within their means, while taking advantage of the full range of funding and financing tools available. The Government expects councils to demonstrate that they are sticking to core business and carefully balancing the need for funding with rates affordability.

234. The Department's analysis of local authority LTPs identified that expenditure on core services was increasing rapidly, while expenditure on non-core services increased at a slower rate (around 2–3% annually). Local authorities may have proceeded with low value and non-essential projects, but not to an extent that the annual expenditure data is significantly altered.

235. The benefit of a rates cap is it establishes a fixed funding envelope, that makes it essential for local authorities to improve fiscal discipline, in accordance with Government's expectations. The rates cap introduces certainty that:

   a. ratepayers will be protected from large rates increases; and

   b. that local authorities will focus on provision of basic services.

236. The Government's views have limited the scope of options available to mechanisms that can limit rates increases.

If no action is taken, local authorities are expected to continue with significant rates increases from 2026–2030

237. Local authorities' latest LTPs forecast rates increases from 2024 to 2034. On average, local authorities are planning rates increases of 9.0% in FY 2026/27.

238. Local government elections in 2025 produced new councils that will have an opportunity to adjust forecast rates increases when the 2027–2037 LTPs are prepared. Rates increases are forecast to slow over the course of the ten-year period, with an average 4.0% increase in 2033/34. This is still higher than wages are expected to rise (expected wage increase for 2026 is 2.6% and 2.8% in 2027),[39] which will mean continued short- to medium-term pressure on ratepayers.

[37] Statistics NZ (2025). "National Population projections (2024 base)." https://explore.data.stats.govt.nz/.

[38] Ministry of Business, Innovation and Employment (2025). "Tourism Growth Roadmap." https://www.mbie.govt.nz/immigration-and-tourism/tourism/tourism-growth-roadmap.

[39] Reserve Bank of New Zealand (2025). "Survey of Expectations." https://www.rbnz.govt.nz/statistics/series/economic-indicators/survey-of-expectations.

Rates increase averages for all territorial authorities (excluding water services)[40]

Financial year	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Forecast rates increase	9.0%	6.4%	5.4%	5.3%	4.7%	4.1%	4.1%	4.0%

239. Further information on how the status quo is expected to evolve is available in the previous *Regulatory Impact Statement: Rates Capping* at paragraphs 27–30.

What objective was sought in relation to the policy problem?

240. The objective was to address recent significant and sharp rates increases by limiting rates increases, while:

   a. encouraging local authorities to prioritise and better manage spending on core services as defined in the Amendment Bill, to reduce the likelihood of future infrastructure deficits and related rates pressures;

   b. encouraging more use of alternative funding and financing tools where it is efficient and appropriate to do so, to relieve the pressure on rates; and

   c. enabling local authorities to continue to maintain sufficient service standards, by aligning provision of services with long-run measures of economic growth.

Criteria

241. Options to address this problem will be assessed against the following criteria, which are intended to provide a check on how well each regulatory design option supports the delivery of the objectives.

Criteria	Description
Transparency	The option is open to public scrutiny.
Subsidiarity	Taking decisions at the level of government best placed to do so, by virtue of being those most directly affected, by those best informed and best placed to deal with any consequences
Efficiency	The extent to which the option can be implemented successfully, with minimum new costs for the Crown and local authorities in a reasonable timeframe
Effectiveness	The extent to which the option achieves the policy objective of addressing recent significant and sharp rates increases by limiting rates increases, while: • encouraging local authorities to prioritise and better manage spending on core services as defined in the Amendment Bill, to reduce the likelihood of future infrastructure deficits and related rates pressures. • encouraging more use of alternative funding and financing tools where it is efficient and appropriate to do so, to relieve the pressure on rates. • enabling local authorities to continue maintain sufficient service standards, by aligning provision of services with long-run measures of economic growth.

[40] Department of Internal Affairs assessment of 2024 Long-Term Plans.

What scope was the chosen option considered within?

Options analysis was constrained by prior Government decisions

242. In August 2024, the Government announced that it will investigate options for revenue-capping to limit local authorities spending.[41] Further announcements include that the Government is investigating "rates pegging similar to New South Wales (NSW)[42]", and that the Government is "actively exploring a rates capping system[43]".

243. In April 2025, Cabinet confirmed its decision to proceed with a rates cap that is flexible enough to support the Government's housing growth aspirations and allows local authorities to respond to the infrastructure deficit, while limiting spending on nice-to-haves, with the following principles in mind:

    a. **independent:** determined by an independent authority;

    b. **transparent:** simple for councils and their communities to understand;

    c. **cost-reflective:** accurately reflect cost changes for councils; and

    d. **localised:** considers differences between councils across the country. [44]

244. The Government is progressing a range of reform proposals that will address funding pressure on local authorities. These are discussed in part 1 of this regulatory impact statement at paragraphs 35–40 and include Local Water Done Well, the Local Government (System Improvements) Amendment Bill, *Simplifying Local Government* proposal, and development levies reform.

245. Regulatory impact analysis to support Cabinet's decisions in December 2025 was prepared within the constraints of these prior decisions. However, details about the Government's Simplifying Local Government reform proposal were not available to include in the *Rates Capping* regulatory impact statement; they have been included in this regulatory impact statement.

Some options could not be considered due to Government direction

246. Ministerial direction to proceed with a rates cap meant that non-regulatory options were out of scope. Non-regulatory options the Department could have considered include:

    a. issuing guidance on reasonable increases in rates (without establishing a separate regulatory regime);

    b. a model similar to that used in South Australia, which has independent, rolling audits that can suggest improvements for council service delivery (as endorsed by LGNZ); and

    c. increased clarity of use of Ministerial intervention powers under Part 10 of the LGA.

247. The *Rates Capping* regulatory impact statement summarises these options at paragraphs 65 –77.

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[41] RT Hon Christopher Luxon (August 2024) Speech to LGNZ SuperLocal conference, Available from: [Speech to LGNZ SuperLocal conference | Beehive.govt.nz]

[42] Hon Simeon Brown (2024) [Government getting local government back to basics | Beehive.govt.nz]

[43] Hon Simon Watts (2025) [Stronger accountability for your rates | Beehive.govt.nz]

[44] ECO-25-MIN-0189, April 2025.

248. Further options for intervention were discussed in the Department's *Improving Local Government Transparency, Accountability and Financial Management* regulatory impact statement (2010).[45] These options were not considered because they are out of scope of the Ministerial direction.

Consultation had not been undertaken by December 2025 but is now complete

249. The lack of consultation constrained the Department's analysis in the *Rates Capping* regulatory impact statement and this was recognised by the quality assurance panel. That regulatory impact statement did acknowledge that public consultation was intended to occur from November 2025 to February 2026 and that this consultation would inform the detailed design of the rates target model. The outcomes of the consultation are discussed in part 1 of the *Rates Target Regulatory Design* regulatory impact statement.

250. Targeted consultation took place from 3 December 2025 to 4 February 2026 with a list of stakeholders approved by the Minister of Local Government.[46] The Department was unable to consult with a wider range of stakeholders. The consultation focused on how to set the target range for the rates target.

251. Generally, councils and economics agencies stated opposition to a cap in principle, noting the experience of other jurisdictions. Submitters also emphasised the importance of local democracy and that the rates cap should not impinge this. Submitters:
    a. had concerns about the proposed approach to setting the bottom and top of the range;
    b. wanted to see adjustments made for regional circumstances and for when there is cost uncertainty;
    c. wanted more or less flexibility in the regulatory approach; and
    d. raised further issues detailed in part 1.

252. While there was not any public consultation to support decisions between different rates cap models, an Independent Reference Group (IRG) of local government and financial sector experts provided policy advice on designing a rates constraint mechanism. The IRG and other public sector engagement was influential in comparing potential options. Information about the IRG and public sector engagement was provided at paragraphs 44–49 of the *Rates Capping* regulatory impact statement.

What options were considered by Cabinet?

The Department provided advice on four options for controlling rates increases

253. The Department considered four options:
    a. Option 1: status quo
    b. Option 2: rates target
    c. Option 3: rates cap with exclusions
    d. Option 4: rates cap on all spending

254. This Supplementary Analysis Report analyses the rates target against the status quo but does not provide further analysis of option 3 (rates cap with exclusions) or option 4 (rates

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[45] Department of Internal Affairs (2010) [Improving Local Government Transparency - 29 April 2010 - Regulatory Impact Statement - Department of Internal Affairs]

[46] The list of stakeholders is included in Part 1

cap on all spending). Cabinet has agreed to the rates target option, so this report focuses on the impact of the rates target model and associated risks and mitigations, since this is the option Cabinet plans to implement.

255. Option 2 has been updated to include preferred approaches for detailed design elements for the rates target range model (as set out in parts 2–4), being how the rates target formula is set, processes for managing applications for variations from the rates target range, and regulator functional design. Including these elements of regulatory design completes the policy design and improves understanding of the impacts of the proposed rates target model.

Option 1: status quo

256. The status quo is largely explained in part 1 above. Local authorities have the flexibility to set and charge rates within the limitations in the LGA and Rating Act. The primary check on this ability is public pressure through elections. Councils are primarily accountable to their communities, through long-term plan consultation processes and at elections. However, there are limitations to consultation under the status quo, as plans are not necessarily designed to ensure broad engagement. Ultimately communities can alter their representatives through elections if they consider the level of rates to be unacceptable.

Option 2: rates target

257. The rates target model has been updated to include new detailed policy design from the *Rates Target Range Model Regulatory Design* regulatory impact statement.

258. Under this option, local authorities would be able to increase their total rates within a percentage target range. The target would apply to all sources of rates revenue (uniform annual general charges, general rates, targeted rates), but not to other sources of revenue such as water charges or water-related targeted rates (regulated by different regime), development contributions or the growth portion of forthcoming development levies, and fees-funded local authority services, such as building consents and other user charges.

259. The target range would have a minimum, midpoint, and maximum, expressed as a percentage increase for rates on a per capita / per rating unit basis. The range would not be a total revenue target. It would represent the price component of local authority revenue growth. The target range would be determined by a formula anchored in long-run economic indicators, such as inflation, nominal GDP, population growth and productivity. This is discussed further in part 2.

260. The formula, and the economic indicators that are used to calculate it, are intended to be reviewed every three years to align with local authorities' planning cycles, adjust for new metrics, and address any issues that have arisen.

261. Local authorities would retain the ability to apply differentials to general rates, adjust the basis for charging rates (e.g., switching from capital to land value or vice versa), and to determine where in the target they would operate.

Setting the formula

262. The rates target is a range that local authority rates increases must be set within. The minimum of the range is intended to ensure local authorities can continue to provide basic services. The minimum is set with reference to a cost index such as CPI, Capital Goods Price Index, Producers Price Index, or a Local Government Price Index that uses a combination of series. The maximum is intended to allow for growth in demand for

council services. The maximum is proposed to be set with reference to nominal GDP per capita. The precise economic indicators used in calculating the target range are subject to further Cabinet decisions and are not in scope for this RIS.

263. The target range is the change in price of rates per capita, so it automatically adjusts when population increases. Local authorities already base their long-term planning on population growth assumptions and they will continue to do so. Under the target range a regulator may consider the appropriate data projections for local authorities to use.

264. Local authorities make plans for spending and anticipated rates take, based on assumptions about interest rates, cost indices and their legal responsibilities. Assumptions about cost structure are imperfect. To address the occurrences of higher (or lower) than expected costs, when setting a range for the next 3 year period, the regulator will adjust for the differences between anticipated and actual cost changes to make a council whole – with a higher future range if council costs had exceeded forecasts, and a lower range if costs were below forecast.

265. The responsibilities of councils change over time. Targeted consultation focused on a fixed basket of services, and under a rates cap some process would be needed for adjusting the target range for the costs of meeting new responsibilities, so that councils can meet regulatory requirements. Every three years, the regulator would assess the net additional costs imposed on councils, from meeting any new responsibilities. This would reflect the additional costs imposed on councils that are known in advance and articulated through Cabinet processes.

Variations

266. There will be times where local authorities need to increase rates above the rates target, so this option includes a process for variations. Variations are expected in two situations: unpredictable, unforeseen or extreme circumstances (in which case applications are approved by the Minister) and in circumstances where local authorities intend to increase revenue for future financial planning (in which case applications are approved by the regulator).

267. This model provides councils with some flexibility to increase rates within the target range and to apply for variations where the circumstances warrant it and the community are supportive. The flexibility will be offset through increased information disclosure, transparency and accountability from local authorities, which is being enabled by the Local Government (System Improvements) Amendment Bill. With the changes through the Bill, local authorities will report in a consistent way on spending on standard groups of activities (allowing comparisons of amount between local authorities, amount per person, proportion of rates spent on each local authority activity). Improved information disclosure and standardisation across councils will strengthen the line of accountability from local authorities to voters and facilitate regulatory oversight of local authorities.

Regulator

268. The target range model creates the need for a regulator to carry out the following administrative and compliance functions:

    a. apply the formula, and calculate and publish rates target ranges for each local authority (every three years);

    b. monitor and publicly report on compliance with the rates target ranges; and

    c. publish guidance materials for councils to support compliance;

d. early engagement with councils to their compliance with the rates target range;

e. assess applications for significant and sustained variations from the target range; and

f. publish a report on trends, risks, observations, and issues in the implementation of the rates target model every three years.

269. The Minister of Local Government prefers that the regulator also has the power to direct councils that have set rates outside the target range to remedy this.

How do the options compare?

270. The following table assesses the options against the status quo.

	Option 1: status quo	Option 2: rates target
Transparency	0	+ Ratepayers gain improved visibility of why rates increase from the formula for the target range and from applications for variations. Variations process is transparent.
Subsidiarity	0	- Local authority rates revenue constrained by target range and Minister/regulator decisions on variations both limit what can be achieved through local government. Communities retain influence over variations through consultation.
Effectiveness	0	+ Limits rates increases to the target range, aligning rates increases with cost of providing services and growth of economy. Potential for frequent use of variations to undermine policy intent in limiting rates increases.
Efficiency	0	0 Costs for councils to submit variations and for Minister or regulator to assess. Regulator administrative costs. Costs offset by local authorities finding service delivery efficiencies.
Overall assessment	0	+

The Department did not have a preferred option in November 2025

271. In *Regulatory Impact Statement: Rates Capping*, the Department assessed that Option 2 (rates target) is most likely to address the Minister's concerns around significant and sharp rates increases, while minimising risks of unintended consequences. However, the Department did not consider that the preferred option would deliver a positive net benefit compared to the status quo without further policy development having been completed.

Following detailed design, Option 2 has benefits over the status quo

272. The advantages of the target range model, compared to doing nothing, are that the model would:

a. allow scrutiny over local representatives' decision-making;

b. be effective at meeting the policy objectives;

c. smooth rates increase and encourage local authorities to prioritise and better manage spending on core services;

d. encourage more use of alternative funding and financing tools; and

e. support local authorities to maintain sufficient service levels.

273. However, a rates target would have one-off implementation and ongoing operational costs associated with it and place a limit on local authority decision-making. These costs were not quantifiable when Cabinet made its decisions in December 2025 because detailed design of the rates target formula, variations and regulator functions had not been completed.

274. Following the detailed design of the rates target model, the Department has more clarity on the costs of the overall policy package. These are also discussed in the *Rates Target Regulatory Design* regulatory impact statement in parts 2–4 above. In summary the costs of the rates target are:

a. for ratepayers/consumers, lower levels of service or cancelled services where they are outside the core services that local authorities provide, or are not statutory responsibilities;

b. the cost of debt for local authorities is expected to increase by a small amount; and

c. the cost to provide regulatory oversight of the rates target.

275. The Department's view is that the rates target range model, as a package, has marginal net benefits relative to the status quo. These benefits primarily come from the increased assurance processes from oversight, and the in-built flexibility. While the cap limits councils' ability to directly meet all their communities' preferences using rates revenue, there are mitigations in the design of the model. For example, councils can apply to a regulator for variations for future financial planning (variation 2), which is likely to be granted if the regulator finds that the council has met mandatory statutory criteria. Because councils have to seek these variations before consulting on their long-term plans, ratepayers will have an assurance from the regulator on the council's financial management. This assessment will accompany an audit report when councils consult on their long-term plans. Benefits and costs of higher (lower) rates and higher (lower) levels of service largely net out, these are legitimate policy preferences that differ between population groups.

276. Assumptions underlying the cost benefit analysis on the following page are that:

a. local authorities will robustly prioritise spending on core services and deprioritise spending on discretionary services (in accordance with the new purpose of local government);

b. local authorities will make greater use of alternative funding and financing tools such as user charges, and that it is efficient to do so;

c. local authorities will not increase debt to account for less rates revenue;

d. local authorities will willingly adopt opportunities for service delivery efficiency improvements identified through regulatory oversight; and

e. central Government agencies will identify costs for local authorities that come with any new obligations assigned by Government.

The Minister recommended Cabinet endorse Option Two: rates target

277. Option Two was the Minister's preferred option. The Minister's Cabinet paper *A Rates Target Model for New Zealand* recommended that Cabinet agree in principle to the target model for a rates cap, subject to further policy development on regulatory design.

What are the marginal costs and benefits of the chosen option?

Affected groups	**Comment** *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.*	**Impact**	**Evidence Certainty**
	Additional costs of the rates target compared to taking no action		
Regulated groups (local authorities)	Local authorities will be limited in their ability to raise revenue, impacting levels of service delivery. Rates target range model is designed to support provision of basic services, while local councils are prioritising spending away from discretionary services. What councils reduce spending on is subject to community consultation processes.	Medium	Low
	Potential restrictive effect on infrastructure investment that is funded by rates with local authorities potentially cancelling planned capital works projects in core services.	Unknown	Low
	The preferred target range model takes into account regional differences, but imperfect information may mean that some local authorities would raise marginally less revenue than is required to address their local circumstances.	Medium	Low
	There will be ongoing costs for local authorities in engaging with the regulator once established.	Low	High
	Impact on local authority debt and financing costs is attempting to be mitigated through regulatory design. Credit rating agencies have raised that it will be credit negative if councils do not reduce spending in line with reduced revenue. Early indications are that impacts of limitations have been alleviated through a clear variations process to enable spending above the range. **Some residual impacts are likely to remain, depending on choices of total expenditure by councils.**	Low	-
Regulator (Crown)	To have oversight of spending and develop the processes needed, a central economic regulator would be needed to monitor local authorities,	9(2)(f)(iv)	Low

	issue guidance and advise on variances from the range. This is intended as a very light touch regulator, especially initially, based on information disclosure and developing guidance to the sector.		
Others (communities, other Crown agencies)	Lower levels of service in areas outside delivering statutory obligations.	Reduction in services provided to the value of approx. $938 per rating unit over seven years	Low
	Costs to central government agencies to quantify future requirements on local authorities.	Medium	High
Communities	Increased user fees and charges as councils use other revenue tools. Councils generally charge costs recovery for private good services, rates fund public good services, with a split for mixed benefit service. Encourages a great emphasis on the private good aspects and full cost recovery.	Low - medium	High
Total monetised costs		**Medium**	**Low**
Additional benefits of the preferred option compared to taking no action			
Regulated groups (local authorities)	Increased use of alternative funding and financing tools, less reliance on rates as a source of revenue.	Medium	High
	Anticipated prioritisation of expenditure to projects with the highest value.	Medium	Low
	Regulatory oversight reviews of local authority spending are likely to find opportunities for improvements in service delivery.	Medium	Unknown
	Rates target sets expectations that there will always be rates increases, meaning local authorities are likely to face less pressure to set zero percent rates increases.	Medium	Unknown
Regulator (Crown)	Monitoring of council rates increases outside the target range can be an early warning system of financial sustainability issues.	Medium	Unknown
Others (communities)	Multiple property owners benefit most from a reduction in rates spending and the consequent capitalisation into higher house prices, with lower economic prosperity for renters as a result.	Unknown	Unknown

	Despite local authorities being able to set differentials, the rates target is still likely to increase the predictability of rates increases for ratepayers.	Medium	Unknown
	On average, rates per rating unit (excluding water rates) in New Zealand without a rates target are forecast to total $27021 over the years 2027-2034. Under a rates target of 2-4% per capita, annual increases would be moderated to 4%. This equates to a total rates bill for an average rating unit for the period from 2027-2034 of $26083. This indicates a saving of $938 per rating unit (property) over seven years. This does not mean every ratepayer will have savings under a rates target, but it indicates that total rates collection will decrease. It is anticipated that this will flow to ratepayers and is likely to provide some relief to cost of living pressures.	$938 per rating unit over seven years	Low
Total monetised benefits		**Medium**	**Low**

Part 6: Implementation, monitoring and review

Implementation

278. Implementing the rates target range model requires amending legislation. Subject to confirmation by Cabinet a Local Government Amendment Bill will be drafted. The Bill is expected to be enacted and effective from 1 January 2027. In November 2025, Cabinet agreed that the rates cap model will be fully effective from 1 July 2029. There will be a transition period between 1 January 2027 and 30 June 2029 to allow councils to adjust to the rates cap. The rates cap implementation timeline set out alongside council planning cycles is set out in a diagram on page 64.

279. This transition period allows for:

  a. current Government-led structural reforms to be in place;

  b. councils to focus the 2027 financial planning cycle on water reforms, as well as making decisions on spending with the rates target in mind and shifting to alternative funding and financing tools;

  c. the establishment of a regulatory regime, including allowing time for a regulator to build a knowledge base and experience in council funding and financing; and

  d. councils to adjust and mitigate risks of a rates cap limiting development, especially for high growth councils.

280. There will be specific arrangements for the transition period. Councils will be required to consider the rates cap, but it will not be mandatory for them to operate within it. This means that they should base the revenue in their 2027 LTPs consistent with the target and show a plan for getting within the target range by 1 July 2029.

281. Depending on how the target range is set, and the commitments already made (such as those in the 2024 LTP), some councils may need to apply rates increases above the range during the transition period, for example if they have budgeted revenue from rates to pay for large capital works projects. The intention is that this will be possible, though in some cases they may need to apply for a variation for FY 2029/30.

282. The transition period will not be the only opportunity for councils to go outside the target range if necessary. They will be able to apply for variations when the regime comes into effect. This ability should also help mitigate risks of councils thinking they will only be able to go above the range in the transition period

283. Councils will also be subject to increased information disclosure requirements. They will report on specific metrics relevant to rates increases, and these will be published by a regulator. This will enable better monitoring of council performance and spending on activities, as well as increase public scrutiny. Communities will be better able to assess their councils' expenditure, and more easily compare with other councils around the country. This connects with the Government's work on performance metrics for councils under the local government system improvements work programme.

Regulatory functions during the transition period

284. A regulator will be needed to:

  a. monitor councils' rates increases between 1 January 2027 and 1 July 2029 (covered in the next section);

b. provide guidance to councils and central government agencies on the rates cap;

c. set the rates target range for 2027-2037; and

d. pre-approve variations from the target range for FY 2029/30.

Issue guidance

285. A regulator will issue guidance to councils on adjusting to the rates cap, including moving to alternative funding and financing tools. Guidance will also cover what is meant by "consider" the rates cap during the transition period. The regulator will also need to provide guidance to central government agencies on what the rates cap means for funding of new legislative obligations on local government.

Set the target range for 2027-2037

286. A regulator will need to set the rates target range for 2027-2037. The rates cap will be fully effective from 1 July 2029, which falls into year three of councils' 2027-2037 long term plans. Thus, the first target ranges (for 2027-2037) will need to be set during the transition period, before councils adopt their 2027-2037 long-term plans.

Variations for FY 2029/30

287. Implementing the rates target in FY 2029/30 has challenges, including:

  a. it is not a LTP year and councils will already have committed to spending, including capital works projects (although this is mitigated by the requirement to consider the rates cap for the first two years of the 2027 long-term plan); and

  b. it is immediately after local government elections in 2028, limiting the time available for variations to be requested, approved and consulted on (as per the approach to variations for future financial planning as described in part 3 above).

288. A transitional variations process will be required to run in FY 2028/29 for FY 2029/30. The standard variations process would commence in FY 2029/30 for the 2030 LTP cycle.

289. The transitional variations process will involve specific councils being invited to seek variations ahead of adopting their 2027 LTPs. A regulator will need to determine these variations before councils consult on their 2027 LTPs. To prevent the regulator being inundated with variation requests, councils will be invited to seek preapproval. Invitations will be based on those councils who are known to have significant capital works programmes underway.

Transition to a permanent regulator

290. A permanent regulator will not be established in time to determine the target range for this period, or to issue initial guidance or undertake monitoring in the first year of the transition. It is most likely that the regulator functions will sit in the Ministry of Cities, Environment, Regions and Transport (MCERT) until the permanent regulator is established.

291. A permanent regulator will need to be established by January 2028 at the latest. They would take over the functions from the interim regulator. The establishment timing is to ensure the permanent regulator is set up in time to engage with councils on variation applications in late 2028 (ahead of FY 2029/30) and to begin work on setting the target range for 2030–2040.

Monitoring

Monitoring during the transition period 1 January 2027 – 30 June 2029

292. A regulatory function will be set up to monitor councils' rates increases between 1 January 2027 and 1 July 2029. Using the additional metrics and information disclosure, the interim regulator would have particular regard to:

    a. rates increases relative to the forecast increases in councils' 2024 LTPs, focusing on the changes in rates attributed to non-waters spending, as water-related rates are outside of the scope of the regime;

    b. councils' asset management performance, including standard benchmarks with more information published over time via council performance metrics; and

    c. the mix of spending by councils, through the standard reporting on groups of activities that will be in place for councils' 2027 LTPs.

293. Where there are irregularities, the interim regulator will report to the Minister of Local Government. An irregularity could be where a council proposes rates increases significantly greater than what was forecast for those years in the 2024 LTP. If a council proposes significant rates increases well beyond the proposed rates targets, this may constitute a problem under Part 10 of the LGA.

294. A regulator would make reports and information publicly available.

Monitoring from 1 July 2029

295. Councils will continue to be subject to increased information disclosure under changes anticipated to be made under the Local Government (System Improvements) Bill and associated regulations, once they enter into effect.

296. The regulator would monitor councils' compliance with the target range in their LTPs and annual rates resolutions. If the regulator identifies that a council has set rates outside the target range, it would notify the council's chief executive in the first instance to seek an explanation, and notify MCERT. After receiving a response from the council, the regulator would report the breach and the response to the Minister of Local Government (and publish the report). Additionally the regulator will have the power to direct a council to remedy rates set outside the target range.

297. This process is intended to provide an early prompt and an opportunity for the council to consider its options to rectify an unintentional breach before the direction to remedy is exercised.

Review

298. The regulator will review the target range model and publish a report every three years, with the first one being 2031. The report will cover general trends, observations, issues and risks in the implementation of the target range model.

Implementation risks

299. Implementation risks include:

    a. 9(2)(f)(iv) [redacted]

b. there is a delay in the legislative process, which flows into a delay in implementing the rates target. The mitigation is to work with House of Representatives officials, to inform them of any risk of delay and to keep the office of the Minister of Local Government up to date on progress of the Bill

c. there is likely to be only one month between setting the target range for the first time and variation applications being due, this may mean applications are not submitted in time and infrastructure projects are cancelled or delayed. The mitigation is the regulator can work with councils in the months before the target range is set to understand variation needs; and

d. councils could increase rates significantly to try and get locked into higher rates levels ahead of the rates cap. The mitigation is accountability to voters through the next local government elections. If a council proposes significant rates increases well beyond the proposed rates targets, this may constitute a problem under Part 10 of the LGA.

Rates Cap and Council Planning Cycle r 0 (July 2026/June 2027) Transition	**Year 1** (July 2027/June 2028) Transition	**Year 2** (July 2028/June 2029) Transition	**Year 3** (July 2029/June 2030) Transition	**Year 4** (July 2030/June 2031) Steady State	**Year 5** (July 2031/June 2032) Steady State	**Year 6** (July 2032/June 2033) Steady State	**Year 7** (July 2033/June 2034) Steady State	**Year 8** (July 2034/June 2035) Steady State
LG Policy:[47] Provides guidance Issues the targets for 2029-2037 Monitors councils' consideration of targets. - Legislation enacted and effective from 1 Jan 2027. Budget bid for regulator.	**LG Policy:** Transition to regulator.	**LG Policy:** Advises Minister as needed	**LG Policy:** Advises Minister as needed	**LG Policy:** Advises Minister as needed	**LG Policy:** Advises Minister as needed	**LG Policy:** Advises Minister as needed	**LG Policy:** Advises Minister as needed	**LG Policy:** - Advises Minister as needed Makes any changes to formula through regulations as needed following regulator review.
Regulator: - Preparatory discussions - Decides variations for 2029/30 (by April 2027).	**Regulator:** - Stood up no later than 1 Jan 2028. - Takes over monitoring function. - Provides guidance.	**Regulator:** - Works on the targets for 2030-2040. - Provides guidance.	**Regulator:** - Sets targets for 2030-2040 (by 1 July 2029). - Decides variations for 2030 (by October 2029). - Provides guidance.	**Regulator:** - Provides guidance. - 3yrly report on trends (early 2031)	**Regulator:** - Works on targets for 2033-2043. - Provides guidance.	**Regulator:** - Sets targets for 2033-2043 (by 1 July 2032) - Assesses costs for FY2028/29 – FY2031/32 under the cost reconciliation mechanism and includes in targets for 2033-2036. - Decides variations for 2033 (by October 2032). - Provides guidance.	**Regulator:** - Reviews formula. - Provides guidance. 3yrly report on trends (early 2034)	**Regulator:** - Works on targets for 2036-2046. - Provides guidance.
Councils: - Required to consider the targets from 1 Jan 2027. - Can apply for variation for 2029/30, by invitation, by 31 January 2027 - Audit of draft LTP (Feb/March 2027) - Consults on 2027-2037 LTP(March/April 2027) - Adopts LTP by 30 June 2027.	**Councils:** - Required to consider the targets.	**Councils:** - Required to consider the targets.	**Councils:** Must operate within the targets from 1 July 2029. - Variations for 2029/30 take effect through annual plan. - Can apply for variation for 2030 LTP (by 31 July 2029) - Audit (before consultation Feb at the latest) - Consults on 2030-2040 LTP, including any variations. - Adopts LTP by 30 June 2030.	**Councils:** - 2030-2040 targets apply. - Variations for 2030 LTP take effect.	**Councils:** N/A	**Councils:** - Can apply for variation for 2033 LTP (by 31 July 2032) - Audit (before council consults Feb latest) - Consults on 2033-2043 LTP, including any variations. - Adopts LTP by 30 June 2033.	**Councils:** - 2033-2043 targets apply. - Variations for 2033 LTP take effect.	**Councils:** N/A
Note: General Election 2026		**Note:** Local elections 2028	**Note:** General Election 2029		**Note:** Local elections 2031	**Note:** General Election 2032		**Note:** Local elections 2034

[47] From July 2026 these functions will sit within the Ministry of Cities, Environment, Regions and Transport (MCERT) (name TBC).