Ministry for Cities, Environment, Regions & Transport

Summary of Underpinning Analysis: Rates Capping

Agency responsible	Ministry of Cities, Environment, Regions and Transport
Portfolio	Minister of Local Government
Date finalised	6 August 2026
Identification Number	REG-2186

Good law-making: 9(i)

The importance of consulting, to the extent that is reasonably practicable, the persons or representatives of the persons that the responsible agency considers will be directly and materially affected by the legislation

Inconsistency identified?	YES

Summary of agency analysis

Local authorities will be directly and materially affected by this legislation. They have not been consulted on the rates capping model in its entirety. Limited consultation was undertaken specifically on the question of how the rates cap target range will be set. All local authorities were given the opportunity to respond. This consultation was limited by:

- time: submitters had from December 2025 to February 2026 to make a submission;
- stakeholders: as directed by the Minister of Local Government, consultation was limited to a targeted list of stakeholders;[1]
- focus: consultation was focused on a limited set of questions. While some submitters also provided broader comments on the model, not all did. The specific consultation questions are included in the "Rates target range model regulatory design" RIS;[2] and
- capacity: councils were asked to submit on other reform processes at the same time, limiting the time, energy and resources they could put into submitting on the rates cap.

[1] Footnote 23 of the RIS: Rates target range model regulatory design lists the following stakeholders as: 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 and Te Uru Kahika – Regional and Unitary Council Aotearoa.

[2] The six questions can be found at paragraph 55 on page 16.

The targeted nature of consultation was largely due to time constraints in policy development, so that the Bill could be introduced before the 2026 General Election.

Ratepayers will also be directly and materially affected by the legislation. They have not been consulted.

Officials consulted public service agencies on the Cabinet paper. However, this does not substitute for consultation with directly affected persons.

MCERT thus assesses that there is an inconsistency with this principle.

Good law-making: 9(j)

The importance of carefully evaluating—

- **the issue concerned; and**
- **the effectiveness of any relevant existing legislation and common law; and**
- **whether the public interest requires that the issue be addressed; and**
- **any options (including non-legislative options) that are reasonably available for addressing the issue; and**
- **who is likely to benefit, and who is likely to suffer a detriment, from the legislation**

Inconsistency identified?	NO

Summary of agency analysis

The Department of Internal Affairs (DIA) prepared a Regulatory Impact Statement (RIS) that identified the policy problem as property rates across New Zealand are increasing faster than they have in the previous two decades, and recent increases have made it difficult for some ratepayers to plan their finances. Ministers directed DIA to develop a constraint on the ability of councils to adjust rates.[3] There is significant public interest both in ensuring rates increases are sustainable and affordable, and that councils are able to deliver essential services. While the public has not been consulted directly on the rates cap model, there is anecdotal evidence[4] that there is widespread support for a limitation on councils' ability to raise rates.

The objective outlined in the RIS is to address recent significant and sharp rates increases while:[5]

- encouraging local authorities to prioritise and better manage spending on core services;

[3] Rates Capping Regulatory-Impact-Statement.docx, paragraphs 31-34.
[4] RNZ-Reid Research poll: 75% of voters support a rates cap | RNZ
[5] Rates-capping-RIS-December-2025.pdf, paragraph 43.

- encouraging more use of alternative funding and financing tools where it is efficient and appropriate to do so; and
- enabling local authorities to continue to maintain sufficient service standards, by aligning provision of services with long-run measures of economic growth.

DIA considered four options to address the policy problem: (1) retaining the status quo;[6] (2) a rates target range (similar to the Reserve Bank model for managing inflation); (3) a strict rates cap for expenditure that excludes revenue raised for the purpose of expending on certain activities and services; and (4) a strict rates cap that applies to all council rates revenue, regardless of the purpose.[7] Non-regulatory options were explored, including issuing guidance to local authorities on better use of existing funding and financing tools. However, Ministerial direction was to deliver a constraint on councils' ability to increase rates, which necessitated a regulatory approach. DIA assessed that, depending on policy and regulatory design decisions, the benefits of the rates target range model (Option 2) would outweigh the costs. The detailed design decisions were the subject of the next two regulatory assessments.[8] Cabinet agreed to Option 2.

There are likely to be both benefits and detriments to the parties involved.[9]

- For local authorities, they will be restricted in how much revenue they will be able to raise from rates, which will affect expenditure that is reliant on rates funding. Councils will need to go through an application process if they wish to seek an exemption to the target range for a specified period. They will also be subject to additional enforcement measures if they act unlawfully in setting a rates increase above or below the target range.
- For ratepayers, the rates cap is intended to stabilise annual rates increases to within the target range, reducing the financial pressure ratepayers experience when there is volatility from year-to-year rates bills.
- For communities, the rates cap is likely to lead to a reduction in levels of service, and higher use of fees and charges. The model ensures a minimum rates increase, which encourages appropriate investment in maintaining assets and delivering services for communities. Having a rates target minimum reduces the risk of underinvestment, followed by the need for larger rates increases at a later date to catch up on investment in services, asset maintenance and asset renewals.

MCERT therefore does not consider there to be an inconsistency with this principle.

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[6] The status quo includes existing constraints such as local democracy, audit, central government stewardship, intervention from the Minister of Local Government, and requirements in the Local Government Act 2002 and the Local Government (Rating) Act 2002.
[7] Rates Capping Regulatory-Impact-Statement.docx, paragraphs 27-37.
[8] Regulatory Impact Statement: Rates target range model regulatory design; and Regulatory Analysis Summary: Rates Capping Regulator.
[9] Rates Capping Regulatory-Impact-Statement.docx, paragraphs 41-43.

Good law-making: 9(k)

The importance of the responsible agency identifying and developing effective arrangements for implementing the legislation	
Inconsistency identified?	NO
Summary of agency analysis	

Implementation arrangements include:

- legislation being enacted and effective from early 2027 to align with councils' 2027-2036 long-term planning;
- a transition period until 1 July 2029 so that councils can adjust to the rates cap. During this time councils will be required to have regard to the target range but it will not be mandatory for them to operate within it;
- pre-enactment information and support to councils by MCERT so they can understand and plan for proposed new requirements in 2027;
- monitoring of councils' rates increases by MCERT;
- the establishment of a regulator (a statutory officer within MCERT) to undertake functions outlined in paragraph three of *Regulatory Analysis Summary: Rates Capping Regulator*; and
- a post-implementation review of the rates cap model three years after it is formally in place.[10]

There are some identified risks and uncertainties in the regulatory impact analyses and summary that could affect implementation if not adequately mitigated against. The main risk relates to managing an implementation date of 1 July 2029, which is Year 3 of a long-term plan that is due for adoption by 30 June 2027. We expect this to be further worked through at the select committee stage.

On balance, MCERT does not consider there to be an inconsistency with this principle, but this will depend on how the implementation date is managed in relation to any slippage in legislative timing.

Good law-making: 9(l)

Legislation should be expected to produce benefits that exceed the costs of the legislation to the public or persons	
Inconsistency identified?	NO
Summary of agency analysis	

[10] This is part of MCERT's plan to review existing legislation as required by Cabinet Circular CO (26) 2 and section 17 of the Regulatory Standards Act 2025.

DIA assessed that the rates target range model, as a package, has marginal net benefits to the status quo. MCERT therefore considers there is no inconsistency with this principle.

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.

Additional potential benefits include:[11]

- anticipated prioritisation of expenditure to projects with the highest value;
- the rates target is likely to increase the predictability of rates increases for ratepayers, with some potential savings for ratepayers;
- the 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 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; and
- increased use of alternative funding and financing tools with less reliance on rates as a source of revenue.

Additional potential costs include:[12]

- cost to the Crown for the regulator 9(2)(f)(iv) [redacted]
- local authorities will be limited in their ability to raise revenue from rates, which is likely to impact service delivery;
- restrictive effect on infrastructure investment that is funded by rates. This is mitigated by having an exemption process for councils who have demonstrated prudent financial management;
- ongoing costs to local authorities in engaging with the regulator once established;
- impact on local authority debt and financing costs. This is mitigated through provisions relating to receivership, Commissioners, exemptions, and the requirement for the Minister to consider significant costs on councils when setting the target range; and
- communities are likely to experience lower levels of service in areas outside delivering statutory obligations or increased user fees and charges for those services. This is intended to be a feature of the model.

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[11] Rates Capping Regulatory-Impact-Statement.docx; Regulatory Impact Statement: Rates target range model regulatory design and Regulatory Analysis Summary: Rates Capping Regulator.

[12] Rates Capping Regulatory-Impact-Statement.docx; Regulatory Impact Statement: Rates target range model regulatory design; and Regulatory Analysis Summary: Rates Capping Regulator.

Good law-making: 9(m)

Legislation should be the most effective, efficient, and proportionate response to the issue concerned that is available	
Inconsistency identified?	YES
Summary of agency analysis	

While analysis found that there are marginal net benefits of a rates target range model as a package, this analysis was constrained by prior Cabinet decisions. The options for analysis were narrowed, with direction given to consider a rates cap as a potential solution to the issue. This restricted the ability to consider other possible alternatives outside of a model focused on limiting rates increases in some way. However, the status quo was assessed as part of the regulator impact assessment as a viable option. The limitation of options available for consideration means that MCERT cannot confirm that this legislation is the most effective, efficient, and proportionate response to the issue concerned.

Rule of Law: 9(a)(i)

The law should be clear and accessible	
Inconsistency identified?	NO
Summary of agency analysis	

The Bill establishes a new regulatory regime to constrain councils' ability to raise rates through amendments to the Local Government Act 2002, the Local Government (Rating) Act 2002, and the Local Government (Financial Reporting and Prudence) Regulations 2014. The Bill adds further provisions to these already complex Acts. While the framework is generally clear, there is a level of complexity in the detail as it needs to work within existing statutory processes for councils. This could reduce accessibility in practice, particularly during the transition phase.

The Legislation Design and Advisory Committee (LDAC) notes that where a number of entities are applying a legislative framework to determine a 'reasonable rate' to charge, it is important that the framework is clear and accessible and provides for consistent and accurate application. This is of particular importance where the reviews and challenges are likely due to the subject matter and level of public interest.

The complexity is intended to be mitigated by the regulator's guidance function.

On balance, the legislation is sufficiently clear to meet this principle, but accessibility may depend on clear guidance and consistent implementation.

Rule of Law: 9(a)(ii)

The law should not adversely affect rights and liberties, or impose obligations, retrospectively	
Inconsistency identified?	NO
Summary of agency analysis	

The Bill does not make retrospective changes or adversely affect right and liberties. The restrictions apply prospectively only.

Rule of Law: 9(a)(iii)

Every person is equal before the law	
Inconsistency identified?	NOT APPLICABLE
Summary of agency analysis	

The Bill applies consistently to all local authorities. The regime allows for different outcomes (for example, through exemptions) but these are based on consistent criteria and transparent decision-making processes.

Rule of Law: 9(a)(iv)

There should be an independent impartial judiciary	
Inconsistency identified?	NOT APPLICABLE
Summary of agency analysis	

The Bill does not alter the role or independence of the judiciary. Regulatory decisions made under the regime will remain subject to judicial review by the courts.

Rule of Law: 9(a)(v)

Issues of legal right and liability should be resolved by the application of law, rather than the exercise of administrative discretion	
Inconsistency identified?	NO
Summary of agency analysis	

The legal rights and liabilities under the Bill are not determined by administrative discretion.

Liberties: 9(b)

Legislation should not unduly diminish a person's liberty, personal security, freedom of choice or action, or rights to own, use, and dispose of property, except as is necessary to provide for, or protect, any such liberty, freedom, or right of another person	
Inconsistency identified?	NOT APPLICABLE
Summary of agency analysis	

The Bill does not affect personal liberty, personal security, general freedom of action, or property rights.

Taking of property: 9(c)

Legislation should not take or severely impair, or authorise the taking or severe impairment of, property without the consent of the owner unless- • **there is a good justification for the taking or severe impairment; and** • **fair compensation for the taking or severe impairment is provided to the owner; and** • **the compensation is provided, to the extent practicable, by or on behalf of the persons who obtain the benefit of the taking or severe impairment**	
Inconsistency identified?	NOT APPLICABLE
Summary of agency analysis	

The Bill does not take, transfer, or severely impair property rights.

Taxes, fees and levies: 9(d)

The importance of maintaining consistency with section 22(a) of the Constitution Act 1996 (Parliamentary control of taxation)	
Inconsistency identified?	NO
Summary of agency analysis	

Setting rates is a devolved system of taxation. The power for councils to raise rates is authorised by Parliament. Through placing a limit on councils' ability to raise rates, Parliament is extending closer control over these taxes than under the status quo.

Taxes, fees and levies: 9(e)

Legislation should impose, or authorise the imposition of, a fee for goods or services only if the amount of the fee bears a proper relation to the cost of providing the good or service to which it relates	
Inconsistency identified?	NOT APPLICABLE
Summary of agency analysis	

The Bill does not impose or authorise fees for goods or services.

Taxes, fees and levies: 9(f)

Legislation should impose, or authorise the imposition of, a levy to fund an objective or a function only if the amount of the levy is reasonable in relation to both— • **the benefits that the class of payers is likely to derive, or the risks attributable to the class, in connection with the objective or function; and** • **the costs of efficiently achieving the objective or providing the function**	
Inconsistency identified?	NOT APPLICABLE
Summary of agency analysis	

The Bill does not impose or authorise levies.

Role of courts: 9(g)

Legislation should preserve the courts' constitutional role of ascertaining the meaning of legislation	
Inconsistency identified?	No
Summary of agency analysis	

The Bill provides for the rates capping regulator to determine when a local authority has breached the statutory requirement to make rates decisions in accordance with the target range. The regulator can then direct the local authority to remake the offending rates decision.

The regulator's role is able to sit alongside the role of the courts, in particular in relation to judicial review. Although the regulator would be able to direct the correction of rates decisions, a council would still be able to challenge this decision through the courts, therefore enabling the courts the ability to determine civil remedies.

Role of courts: 9(h)

Legislation should make rights and liberties, or obligations, dependent on administrative power only if the power is sufficiently defined and subject to appropriate review	
Inconsistency identified?	NO
Summary of agency analysis	

The legislation provides for the Minister of Local Government and the regulator to exercise discretion in some circumstances particularly relating to exemption applications. This discretion is constrained through statutory criteria and processes.
These decisions are subject to judicial review.

Additional information

Relevant publicly available inquiry, review, or evaluation reports

There are three main supporting documents for the summary of underpinning analysis:

- Regulatory Impact Statement: Rates Capping.[13]
- Regulatory Impact Statement: Rates target range model regulatory design.[14]
- Regulatory Analysis Summary: Rates Capping Regulator.[15]

Relevant international treaties, standards and obligations

Not applicable.

Departures from the Legislation Guidelines

The Ministry sought advice from the Legislation Design and Advisory Committee (LDAC) on the mechanism for updating the target range. LDAC has advised the Ministry that the key Legislation Guidelines issues arising with the mechanism are:

Legislation should not delegate a power to make secondary legislation in respect of matters that are more appropriate for an Act.[16]
The Bill provides for the Minister of Local Government to, every six years, set a range which councils will be required to keep their rates increases within. The legal mechanism for updating the target range would be through an Order in Council.
LDAC considers that the target range is a matter of significant policy that should be included in the Act itself, rather than being set through an Order in Council. This would mean that periodic updates to the target range would need to be made via an amendment Bill. LDAC considers that this is the most constitutionally orthodox approach because the rates cap could be seen as constitutional legislation affecting the relationship between central and local government.

MCERT response – Requiring periodic primary legislation for each update to the target range does not fit will with the policy intent of having a mechanism that can be reasonably easily adjusted in response to changes in costs to councils. The Order in Council option is also intended to enable more certainty for councils and ratepayers about timing, and to ensure that the target range is confirmed in plenty of time for long-term plan processes.

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13 Rates Capping Regulatory-Impact-Statement.docx

14 Regulatory-Impact-Statement-Rates Target Range Model regulatory design FINAL.docx

15 Regulatory-Impact-Statement Rates Capping Regulator.docx

16 Legislation Guidelines (2021 Edition) chapter 14.1.

All secondary legislation should be subject to appropriate safeguards.[17] If the target range is set in secondary legislation, LDAC's advice is to ensure appropriate parliamentary safeguards and scrutiny, such as an affirmative resolution process, or a confirmation process.
MCERT response - It is now proposed that Orders in Council, to update the target range, will be confirmable instruments.

The law should be clear and accessible.[18]
See comments above on Rule of Law: 9(a)(i)

We have not identified any other departures for the Legislation Guidelines in the Bill.

Other unusual provisions or features

Not applicable.

[17] Legislation Guidelines (2021 Edition) chapter 14.5
[18] Legislation Guidelines (2021 Edition) chapter 1