Ministry for Cities, Environment, Regions & Transport

PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	**Portfolio**	Local Government
Name of package	Proactive release of Cabinet materials related to rates capping	**Date to be published**	1 September 2026

List of documents that have been proactively released		
Date	***Title***	***Author***
12 November 2025	Cabinet Economic Policy Committee minute ECO-25-MIN-0189	Cabinet Office
12 November 2025	Cabinet paper: A Rates Target Model for New Zealand	Department of Internal Affairs
25 March 2026	Cabinet paper: Rates Capping: Detailed policy design	Department of Internal Affairs
30 March 2026	Cabinet minute CAB-26-MIN-0099.01	Cabinet Office
19 August 2026	Cabinet paper: Local Government (Rates Capping) Amendment Bill: Approval for Introduction	Ministry for Cities, Environment, Regions and Transport
19 August 2026	Cabinet Economic Policy Committee minute ECO-26-MIN-0161	Cabinet Office

Information redacted **YES**

Any information redacted in this document is redacted in accordance with the Ministry for the Environment's policy on proactive release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Summary of reasons for redaction

Some information has been withheld from the above documents under the following sections of the Official Information Act:

- Section (9)(2)(f)(iv) – information withheld to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.
- Section (9)(2)(g)(i) - information withheld to maintain the effective conduct of public affairs through free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty.
- Section 9(2)(h) – maintain legal professional privilege.

- Out of scope

Cabinet Economic Policy Committee

Minute of Decision

A Rates Target Model for New Zealand

Portfolio **Local Government**

On 12 November 2025, the Cabinet Economic Policy Committee (ECO):

Rates target model

1 **noted** that in August and November 2024, ECO noted the Minister of Local Government's (the Minister) forward work programme, which included consideration of rates capping [ECO-24-MIN-0157 and ECO-24-MIN-0257];

2 **noted** that in April 2025, the Cabinet Expenditure and Regulatory Review Committee (EXP) agreed that the rate cap system be developed alongside relevant Ministers and in line with a series of principles [EXP-25-MIN-0038];

3 **noted** that an exclusions-based rates cap model was considered but determined that it would likely lead to significant unintended consequences and suboptimal outcomes;

4 **noted** that the Minister instead proposes an economically anchored model that would place expectations on councils to only raise rates within a target range;

5 **noted** that the target will include all council spending except for expenditure relating to water services;

6 **noted** that the rates target will be subject to regulatory oversight, with consideration of utilising existing regulators relevant to local government;

7 **noted** that further work is needed on regulatory design, following decisions on the proposed rates target model;

8 **noted** that as part of the regulatory function, councils will be monitored to ensure they are not underinvesting in asset management and maintenance;

9 **agreed in principle** to the target model for a rates cap, subject to further policy development on regulatory design and the development of worked examples using actual council financial information, showing planned expenditure mapped against rates revenue allowable by the rates target;

10 **invited** the Minister to report back to Cabinet in early 2026 on the above matters;

11 **agreed** that a transition period of three years is needed to allow stakeholders to move to a rates target, and that during this period councils would be required to consider the rates target and subject to increased information disclosure, and regulatory oversight would be limited;

12 9(2)(f)(iv) [redacted]

13 9(2)(f)(iv) [redacted]

14 9(2)(f)(iv) [redacted]

15 **agreed** to targeted consultation on the rates target model, as outlined in Appendix A to the paper under ECO-25-SUB-0189, commencing in late 2025;

16 **noted** that the proposed rates target model formula is not final and is subject to change following the targeted consultation referred to above;

17 **invited** the Minister to issue drafting instructions to the Parliamentary Counsel Office for a bill to give effect to the key design elements of the rates target model, subject to further policy development on regulatory design and consultation on the target range;

18 **authorised** the Minister to make decisions on subsequent matters arising from legislative drafting that align with the overall policy intent;

19 **noted** that a bid will be submitted to add the Bill to the 2026 Legislation Programme with a category 5 priority (to proceed to select committee before the 2026 General Election);

20 **noted** that the regulatory framework needs to be given effect through legislation, and the Minister intends to seek Cabinet agreement to a second tranche of drafting instructions as part of advice in early 2026;

21 **noted** the following milestones and timings:

21.1 announcement of the rates target model in late 2025;

21.2 legislation enacted by December 2026;

21.3 legislation effective from 1 January 2027 in time for councils' 2027 long-term plans;

21.4 the full system to be in place by 1 July 2029;

Update on approach to elected member access to information

22 Out of Scope [redacted]

23 Out of Scope [redacted]

Rachel Clarke
Committee Secretary

Present: (see over)

Present:
Hon David Seymour
Rt Hon Winston Peters
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Shane Jones
Hon Brooke van Velden
Hon Simeon Brown
Hon Dr Shane Reti
Hon Tama Potaka
Hon Simon Watts
Hon Chris Penk
Hon Penny Simmonds
Hon Andrew Hoggard
Hon Nicola Grigg
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Simon Court MP

Officials present from:
Office of the Prime Minister
Office of Hon Chris Bishop
Office of Hon Simon Watts
Officials Committee for ECO

Office of the Minister of Local Government

Chair
Cabinet Economic Policy Committee

A Rates Target Model for New Zealand

Proposal

1. This paper outlines a framework for a rates target model to be implemented in New Zealand, and seeks Cabinet's agreement on:

   1.1 The key design elements of the model, including the issuing of drafting instructions to develop a bill to give effect to these key design elements, and seeking priority for that bill in the 2026 Legislation Programme; and

   1.2 The proposed approach for targeted consultation on the rates target model.

Relation to government priorities

2. The Government is focused on economic growth, reducing the cost of living and delivering better public services. We expect councils to deliver the basics, live within their means to keep rates increases manageable, and be more transparent and accountable to the communities they represent. This paper seeks decisions in support of Action 9 in the Government's Q4 Action Plan.[1]

Executive summary

3. As part of the Government's work programme for local government system improvements, we have committed to taking actions in 2025 to introduce a rates target in order to stop the unsustainable recent increases in rates faced by many New Zealanders.

4. Council rates are making up an increasing amount of total household bills, many communities have been facing double digit year-on-year increases in rates. While rates fund critical services like water, much of recent increases cannot be attributed to increased investment in core services, and represent an unsustainable pressure on the cost of living.

5. In designing a rates target for New Zealand, I considered the New South Wales model, which excludes certain council spending but places a hard cap on rates revenue. While this would reduce costs to ratepayers, I found that this model would likely to lead to unintended consequences and potentially exacerbate New Zealand's infrastructure deficit. My proposal is therefore for an economically anchored rates target rather than a hard cap. The target would apply to all sources of rates,[2] and all council spending, except for water services.[3]

[1] Action #9 "Take policy decisions to introduce rate caps." Coalition Government's 2025 Q4 Action Plan for New Zealand.

[2] Excluding water charges and targeted rates, development contributions, and fees-funded council services

[3] Water services are defined in section 5 of the Water Services Act 2021 as "services relating to water supply, wastewater, and stormwater." These will be governed by a different regime.

6. Preliminary analysis indicates that a target range of 2-4 percent per annum per capita provides a credible long-run guide for sustainable council revenue growth. The lower bound of 2 percent aligns with the Reserve Bank's midpoint inflation target and represents the minimum necessary to maintain existing service levels and assets. The upper bound of 4 percent reflects long-run nominal GDP growth per capita and accommodates for the sustainable expansion of services and infrastructure, with flexibility for faster-growing councils.

7. To balance the discretion inherent in a rates target model, councils will be required to provide greater information disclosure. We are enabling this through changes to councils' reporting in the Local Government (System Improvements) Amendment Bill (the Amendment Bill). The model also requires regulatory oversight. Further policy work will be undertaken on detailed regulatory design and costings, which I will report back to Cabinet on in early 2026. I will consider alignment with other proposed local government regulatory functions.

8. Given the importance of an enduring rates target model, I propose to undertake targeted consultation on the model. There may be considerations required on the practical implementation of the model, local considerations and legal and regulatory details. I intend that the rates target is phased in from 2026 to influence councils next long-term plans (LTPs) with implementation by 1 July 2027.

9. A three-year transition period will allow councils to integrate the target into their planning. During this period, councils will be required to consider the target when setting rates and report on financial metrics, while the Department of Internal Affairs (DIA) monitors implementation and issues guidance.

10. DIA will be required to set up the regulatory framework which will have funding implications that may need to be considered beyond Budget 2026 for the permanent regulator.

11. This will sit alongside the Government's broader system improvement work, which will refocus councils on core business.

Background

12. On 21 August 2024, the Prime Minister's speech at the Local Government New Zealand conference set out the Government's shared vision for local government "doing the basics, brilliantly".

13. Work on a rates cap is part of the Local Government System Improvements work programme [ECO-24-MIN-0157]. In addition to other cross-government work, such as Going for Housing Growth, the System Improvements programme is one of three programmes to refocus the attention of the local government sector. Collectively, the programmes aim to address long-standing infrastructure challenges, support economic growth, and keep rates affordable. The two other programmes are Local Water Done Well and City and Regional Deals. Separately, Cabinet is being asked to consider engagement on a proposal to simplify local government [ECO-25-SUB-0180].

14. On 1 April 2025, the Cabinet Expenditure and Regulatory Review Committee agreed [EXP-25-MIN-0038] to progress work on a rates capping system that 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"*, which are:

14.1 **Independent** – Determined by an independent authority;

14.2 **Transparent** – Simple for councils and their communities to understand;

14.3 **Cost-reflective** – Accurately reflect cost changes for councils; and

14.4 **Localised** – Considers differences between councils across the country.

15. Cabinet agreed that the system be developed alongside relevant Ministers.[4] Cabinet also noted that I would report back before the end of the year with an update. Since then, I have worked with officials and my Independent Reference Group (IRG)[5] to develop the policy, learning lessons from the New South Wales 'rate peg' and adapting it to the New Zealand context.

An exclusions-based rates cap model was considered

16. Our initial approach focused on the development of an 'exclusions-based' rates cap, similar to that employed in New South Wales. The model was designed on the principle that the rates cap would apply to all council rates revenue. It would exclude revenue gathered for certain purposes so that it would not hamper expenditure on core services like water and roads and inadvertently hamper broader government priorities.

17. The advice of my IRG is that this model would likely lead to significant unintended consequences and suboptimal outcomes.

A target range model is preferred

18. I recommend that our rates target involves an economically anchored rates 'target' that councils would operate within. Having a target range within which councils can increase their rates would mitigate the unintended consequences of the 'exclusions-based' model, while achieving the overall purpose of driving more efficient and effective council spending. The target would also fulfil Cabinet's key requirements for the design of a rates cap system (as outlined in paragraph 14).

19. The rates target draws on the experience of flexible inflation targeting, which has been used in New Zealand for more than 30 years and has evolved over time. It would increase the rigour and oversight of local government spending relative to the status quo but be more flexible than a strict rates cap albeit with comprehensive reporting obligations to ensure the model is credible.

Key design elements of the model

20. There would be a **target range** within which council rates (including uniform annual charges, general rates and targeted rates[6]) are allowed to increase, with a minimum, midpoint and maximum, expressed as a percentage increase for rates. The range would not be a total revenue target. It would represent the price component of council

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[4] Including the Minister of Finance, Minister for Regulation, and Minister for Infrastructure

[5] The members of the IRG are: Lawrence Yule (Yule Alexander), Malcolm Alexander (Yule Alexander), Cameron Bagrie (Bagrie Economics), Matthew Walker (formerly Chief Financial Officer at Auckland Council), and Fiona Towers (Independent Pricing and Regulatory Tribunal, New South Wales).

[6] The band would not apply to water charges or water-related targeted rates, development contributions (or the growth portion of forthcoming development levies), or fees-funded council services, such as building consents and other user charges.

revenue growth. Councils that are growing will also benefit from this volume increase in revenue.

21. The range would be determined by a **formula** anchored in long-run economic indicators for both operational and capital expenditure, which could include inflation, nominal GDP, population growth, and productivity. The target approach will ensure that council spending grows in step with the wider economy, while remaining affordable and predictable for ratepayers. It will be important that the formula, and the economic indicators that make up the formula be reviewed every three years to address any issues that have arisen.

22. Preliminary analysis of the formula suggests that a rates target of 2-4 percent per annum per capita provides a credible long-run guide for sustainable council revenue growth. The lower bound (2 percent) aligns with the Reserve Bank's midpoint inflation target and reflects the assessed minimum necessary revenue needed for councils to maintain existing services and assets, while the upper bound (4 percent) aligns with long-run nominal GDP growth per capita, allowing for sustainable service and infrastructure expansion and incorporating an additional growth component for some councils. Aligning the upper bound of rates increases to nominal GDP will incentivise greater use of user charges, which have declined in recent years.

23. I propose to seek targeted feedback on the proposed model upon announcement. Subject to Cabinet agreement, consultation will be based on the document included at Appendix A.

24. There may be times where councils may need to raise higher rates revenue than what the target range allows. The model includes **variations** where time-bound flexibility around the target is permitted, although they will be the exception not the norm. I propose two approaches to manage different situations:

    24.1 Situation 1 applies to limited, extreme circumstances such as responding to natural hazards, global economic crisis, or other significant events as determined by Ministers. In these circumstances, variations to the target would be allowed without councils needing to justify those variations. Councils will need to show how they will return to the target over an agreed timeframe.

    24.2 Situation 2 applies where councils need to raise revenue to pay for things outside of extreme circumstances. Where proposed rates rises outside the target are significant and sustained, councils would apply to a regulator for approval for a variation ahead of public consultation on their LTPs. They would then consult on the variation. As part of the process, councils would need to justify the variations to a regulator and explain how they intend to return to the target.[7] To justify the variations, councils will need to show they have met their financial management obligations under the Local Government Act 2002.[8] Overtime, it is intended that the number of variations would decrease as councils catch-up on underinvestment and the time outside the target would not normally exceed two years.

[7] Similarities are drawn to where there have been periods outside the policy target for inflation, and the RBNZ is required to explain why and how they will return to the policy target.

[8] This includes the new requirement in the *Local Government (System Improvements) Amendment Bill* that councils have particular regard to the purpose of local government and the core services of a local authority when determining its approach to financial management.

25. The discretion of the model will be offset through **increased information disclosure** from councils, which we are enabling through the Amendment Bill. Councils will report in a consistent way on spending on standard groups of activities (allowing comparisons of amount between councils, amount per person, proportion of rates spent on each council activity). In time, this would likely include factors like a benchmarking proportion of spending on core services and rates as a ratio to GDP and property value.

26. While the target alone would not force councils to make trade-offs in line with the purpose of local government, the combination of transparent reporting and access to alternative funding tools will reinforce prudent financial management and strengthen community accountability. It also aligns with the Government's broader fiscal reform agenda which is equipping councils with additional funding and financing mechanisms, such as the forthcoming development levy regime and improvement to the Infrastructure Funding and Financing model, to support Local Government to invest in growth and infrastructure delivery without relying solely on rates.

Implementation

27. I intend that the rates target model will be in place by 1 July 2027, the date by which councils are due to adopt their 2027-2037 LTPs.

Regulatory design

28. Subject to Cabinet agreement to the rates target model as described in this paper, a regulatory regime will be needed to support its implementation. There are two key questions: regulatory design, including what regulatory powers are needed; and who will regulate.[9]

29. 9(2)(f)(iv) [redacted]

    29.1 9(2)(f)(iv) [redacted]

    29.2 9(2)(f)(iv) [redacted]

    29.3 9(2)(f)(iv) [redacted].

30. 9(2)(f)(iv) [redacted]

[9] This might be a combination of actors, depending on the regulatory tools and powers.

31. The regulatory design work for the rates target model is progressing and I will report to Cabinet in early 2026 with recommendations. To have the model operational for councils' next LTPs, a regulatory function will need to be established in mid-2026.

Transition period

32. I recommend a three-year period of preliminary arrangements before the full rates targeting model is in place, to:

    32.1 Give time for current Government-led structural reforms to be in place (including resource management and any resulting changes to council functions, and changes to pillars two and three of Going for Housing Growth);

    32.2 Allow councils to focus the 2027 financial planning cycle on water reform, as well as make decisions on spending with the rates target in mind and shifting to alternative funding and financing tools; and

    32.3 Establish a regulatory regime, including allowing time for a regulator to build a knowledge base and experience in council funding and financing.

33. A three-year transition period best allows councils to adjust and mitigate risks of a rates cap limiting development, especially for high growth councils.

34. The preliminary arrangements would include the following (Appendix B).

    34.1 Councils being required to **consider the rates target** in their 2027-2037 LTPs. Councils should base the revenue in their 2027 LTPs consistent with the target.

    34.2 To offset the additional flexibility, councils will be required to **report on specific metrics** relevant to rates increases. These will be publicly available.[10]

    34.3 DIA would **issue guidance** to councils on adjusting to a rates target, including moving to alternative funding and financing tools.

    34.4 DIA would **monitor rates rises** while a regulator is established.[11] If councils propose significant rates increases well beyond the proposed rates targets for years 1-3 of the LTP, there is a possibility that this might constitute a problem under Part 10 of the Local Government Act 2002 (LGA).

    34.5 From 1 July 2028, a regulator would **take over** monitoring and guidance.

    34.6 From 1 July 2029, councils would be **required** to operate within the rates target. At this point, 9(2)(f)(iv) [redacted]

Alignment with other Local Government work programmes

35. This work needs to be considered in the context of the regulatory regimes for Local Water Done Well and development levies, any changes arising from the Simplifying Local Government proposal, and the existing local government framework. As far as possible, I will work to incorporate the ministerial intervention processes within the established framework that already applies to local authorities through Part 10 of the

[10] The metrics will include: council rates as percentage of house prices; council rates relative to wage income growth; council rates as percentage of total income; council salary and wage expenditure as percentage of total expenditure; infrastructure deficit estimates.

[11] DIA is not currently resourced to undertake this function. Should Cabinet agree, reprioritisation of DIA's work for 2027 and 2028 will be required.

LGA (consistent with the approach that was taken in the Local Water Done Well legislation[12]). When exploring who will regulate, I will consider utilising existing regulators relevant to local government, to maximise efficiencies and synergies, and help ensure system coherence.

Financial implications

Implications on ratepayers and councils

36. The rates target model represents a significant shift in how councils fund their activities and will have wider implications for the sector. At the same time, the policy is designed to reduce costs for ratepayers and deliver cost-of-living benefits.

37. Over time, moderating rates growth in this way will provide more predictable household budgeting, reduce volatility in local government costs, and reinforce the Government's broader objective of keeping everyday costs stable for Kiwi families and small businesses.

38. For councils, the rates target approach balances fiscal discipline with flexibility. While a hard rates cap is likely to have negative impacts for councils' credit ratings, initial conversations with credit ratings agencies have provided confidence that a target approach, with an enforced minimum increase, alongside a clear and transparent process for increasing spending above the target in some circumstances, can mitigate those impacts. The agencies note that the minimum increase should be designed to be enough to cover maintenance.[13]

Establishing a regulatory regime

39. To implement this policy from 1 July 2027, funding will be required from 1 July 2026 to start the regulatory set up, including the issuing of guidance to inform councils 2027 long-term plan development. 9(2)(g)(i) [redacted]

40. 9(2)(f)(iv) [redacted]

Impact on other central government portfolios

41. There will be implications for other portfolios. Central government agencies often rely on local government to deliver or co-fund programmes that are unbudgeted. Councils also have responsibilities in legislation (e.g. heritage protection under the Resource Management Act). The assumption is that councils will fund these programmes and responsibilities from rates. If, under the rates target, central government agencies continue to rely on local government to deliver programmes or take on additional responsibilities, councils could be confused as to what activities they are meant to undertake and how to pay for them. It could also shift the cost burden to central

[12] The Local Government (Water Services) (Repeals and Amendments) Act 2025 amended Part 10 of the LGA02 to ensure the Minister's powers to act in relation to local authorities were fit for purpose for the new water services system. They are separate from the powers held by regulators under the Commerce Act and Water Services Act, for consideration when there are significant problems with local authorities or water organisations that require a different form of assistance or intervention (e.g. governance issues).

[13] Subject to further conversations with credit rating agencies.

government for existing programmes and responsibilities if councils cannot fund them within the rates target.

42. To mitigate this, I will direct DIA to issue guidance to agencies to ensure they understand the changes to the purpose of local government, and to fully cost their policies that interact with local government. The Ministry for Regulation has confirmed these costs should be part of relevant regulatory impact assessments but in practice those impacts are not always analysed.

Broader Local Government System Improvements updates: approach to elected member access to information

43. In April 2025, I noted I would return to Cabinet for approval for regulations for the detailed process for elected members to request information from council chief executives [EXP-25-MIN-0038]. Since then, policy development has identified that taking this approach as an initial step would be likely to impose additional compliance burdens due to the detailed nature of regulations. I instead propose that officials issue detailed guidance to councils on interpretation of these requirements and expectations for this process. The regulation-making power in the Amendment Bill will be retained, if councils do not make use of the guidance appropriately.

Cost-of-living implications

44. The rates target policy is intended to address cost of living pressures on households and businesses by constraining the rates increases that councils set. Overtime this policy should mean rates increases are less bumpy and more consistent. There is also likely to be a shift in the types of services and service levels that councils deliver.

Legislative implications

45. A mix of primary and secondary legislation is needed to implement this policy. The Parliamentary Counsel Office were consulted on this paper. A bill to implement rates capping will need a place on the legislative programme for 2026.

46. I will seek Cabinet's approval for this bill to be given a Category 5 priority (to proceed to select committee before the 2026 General Election).

Impact analysis

Regulatory Impact Statement

47. The Department's Regulatory Impact Analysis (RIA) panel (the panel) has reviewed the Rates Capping Regulatory Impact Statement (RIS) in accordance with the quality assurance criteria set out on the Ministry for Regulation website.

48. The panel considers that the information and analysis summarised in the RIS does not meet the quality assurance criteria.

49. 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).

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

Climate Implications of Policy Assessment

55. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to any of the policy proposals.

Population Implications

56. This policy proposal is not expected to have significant negative population implications. A Treaty of Waitangi impact assessment will be undertaken as part of my next report back to Cabinet in early 2026.

Human Rights

57. No potential human rights implications or inconsistencies with the New Zealand Bill of Rights Act 1990 or Human Rights Act 1993 have been identified from these proposals.

Use of external resources

58. I appointed the IRG from June 2025 to 30 December 2025 to provide DIA insights, assurance and verification of the rates targeting design as it developed, as well as providing independent advice to myself. The five members of the IRG have financial and local government experience. I may review the term of the IRG. Costs for the IRG have been met by DIA's baseline.

Consultation

59. The following agencies were consulted in the development of this advice: Department of Conservation, the Department of Prime Minister and Cabinet, Kainga Ora, the Ministry for the Environment, the Ministry for Regulation, the Ministry of Business, Innovation and Employment, the Ministry for Culture and Heritage, the Ministry of Housing and Urban Development, the Ministry for Primary Industries, the Ministry of Social Development, the Ministry of Transport, the National Emergency Management Agency, the New Zealand Transport Agency, Sports New Zealand, Te Puni Kokiri, Te Waihanga (the New Zealand Infrastructure Commission), and the Treasury.

Communications

60. Subject to Cabinet approval, I intend to issue a media release about the rates target model before the end of 2025. This will clearly outline our Government's intent and next steps.

61. Given local authorities are already beginning planning for their 2027 LTPs, I also intend to write to all local authorities with guidance on what the rates target is and how it will be given effect.

62. Subject to Cabinet agreement on my proposal for targeted consultation, I will issue relevant communications on this in early 2026.

Proactive release

63. I intend to proactively release this Cabinet paper within 30 business days of decisions being confirmed by Cabinet, unless there is a good reason not to publish all or part of the material.

Recommendations

64. The Minister of Local Government recommends that the Committee:

Rates target model:

1. **note** previous decisions including rates capping as part of the Local Government portfolio forward work programme [ECO-24-MIN-0157 and ECO-24-MIN-0257];
2. **note** that in April 2025, Cabinet agreed the rate cap system be developed alongside relevant Ministers and in line with a series of principles [EXP-25-MIN-0038];
3. **note** that an exclusions-based rates cap model was considered but determined that it would likely lead to significant unintended consequences and suboptimal outcomes;

4. **note** the Minister of Local Government instead proposes an economically anchored model that would place expectations on councils to only raise rates within a target range;
5. **note** that the target will include all council spending except for expenditure relating to water services;
6. **note** that the rates target will be subject to regulatory oversight, with consideration of utilising existing regulators relevant to local government;
7. **note** that further work is needed on regulatory design, following decisions on the proposed rates target model;
8. 9(2)(f)(iv) [redacted]
9. **agree**, in principle, to the target model for a rates cap, subject to further policy development on regulatory design;
10. **invite** the Minister of Local Government to report back to Cabinet on regulatory design in early 2026;
11. **agree** that a transition period of three years is needed to allow stakeholders to move to a rates target, and that during this period councils would be required to consider the rates target; 9(2)(f)(iv) [redacted]
12. 9(2)(f)(iv) [redacted]
13. 9(2)(f)(iv) [redacted]
14. **note** that should the Department of Internal Affairs not be able to fund the programme from departmental baselines or alternative sources, it will require decisions from Ministers to reprioritise the local government work programme;
15. **agree**, to targeted consultation to begin in late 2025 on the rates target model (as outlined in Appendix A);
16. **note** that the proposed rates target model formula is not final and is subject to change following the targeted consultation beginning in late 2025 (as outlined in Appendix A);
17. **invite** the Minister of Local Government to issue drafting instructions to the Parliamentary Counsel Office for a bill to give effect to the key design elements of the model, subject to further policy development on regulatory design and consultation on the target range;
18. **authorise** the Minister of Local Government to make decisions on subsequent matters arising from legislative drafting that align with the overall policy intent;
19. **note** that the Minister of Local Government will seek to add the Bill to the 2026 Legislative Programme with Category 5 priority (to proceed to select committee before the 2026 General Election);
20. **note** that the regulatory framework needs to be given effect through legislation, and the Minister of Local Government will seek Cabinet's agreement to a second tranche of drafting instructions as part of advice in early 2026;
21. **agree** to the following milestones and timings:

21.1 Announcement of the rates target model in late 2025;

21.2 Legislation enacted by December 2026;

21.3 Legislation effective from 1 January 2027 in time for councils' 2027 LTPs;

21.4 The full system to be in place by 1 July 2029;

Out of Scope [redacted]

22. Out of Scope [redacted]

23. Out of Scope [redacted]

Authorised for lodgement

Hon Simon Watts

Minister of Local Government

Appendix A: Targeted consultation on the rates target formula

Subject to Cabinet agreement, targeted consultation on how to set the rates target will be undertaken based on the following information.

Proposed formula

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

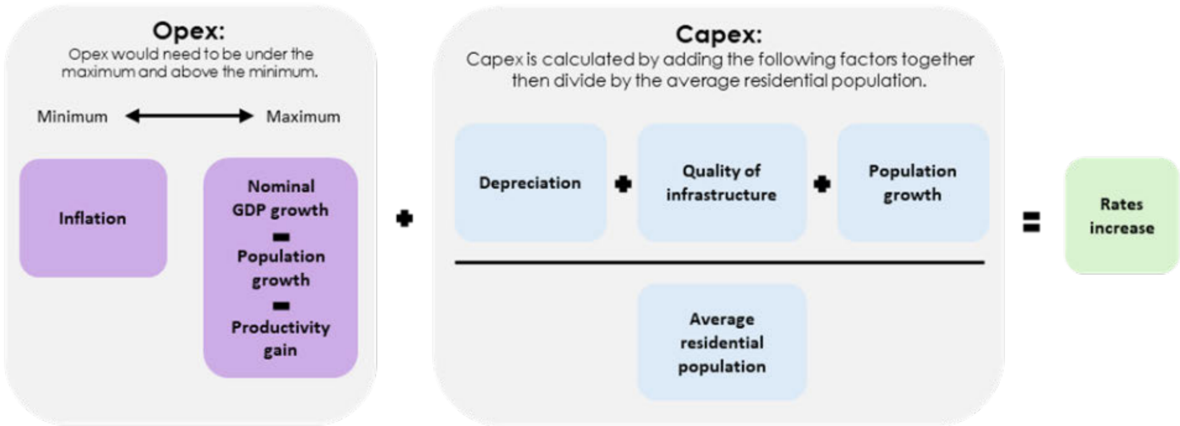

Figure 1: Proposed rates target formula

2. In a future 'steady state',[14] 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.

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

   3.1 be sufficient to replace worn out assets (depreciation);

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

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

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

4. 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.

5. 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.

[14] 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.

5.1 *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.

5.2 *Choice of maximum*: As a long run anchor we believe council activity should align with national activity/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.[15] Deducting prospective growth in the rateable base, and an allowance for productivity yields around 4% as a per capita/per rating unit increase.

Proposed consultation questions

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

7. If not, what economic indicators do you suggest be included and why?

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

8. Does the maximum of the target account for council spending on core services?[16]

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

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

Timelines

11. The Minister of Local Government will announce consultation on the formula in November 2025, when he makes announcements on Cabinet decisions on the model. Consultation will run from the announcements to February 2026, with outcomes being reported to Cabinet in the next paper in early 2026.

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

[16] Core services as outlined in the *Local Government (System Improvements) Amendment Bill 2025* being network infrastructure; public transport services; waste management; civil defence and emergency management; libraries, museums, reserves, and other recreational facilities.

Appendix B: Transition to rates targeting

Rates band: transition timing

2027 - 2030			
2027	**2028**	**2029**	**2030**
2027-2037 LTPs set from 1 July. Councils required to consider the rates band in setting their 2027-2037 LTPs. Councils required to report metrics relevant to rates increases. DIA to issue guidance to councils on adjusting to the rates band. DIA to monitor rates increases, seek information from councils when the increases are significantly above the band.	Regulator set up from 1 July 2028. Limited regulatory powers available initially. Regulator to: • Issue guidance to councils • Monitor rates increases, seek information from councils when increases are significantly above the band, and report this to DIA and the Minister. Additional regulatory tools may be added to the regulator, such as assisting councils and suggesting changes.	Full rates band in effect for Year 3 of councils' 2027 LTPs. Councils required to operate within the rates band. For proposed significant and sustained increases beyond the band, councils will need to justify the variation. Process for variations to be outlined in legislation. Full regulatory regime in effect, including: • Directing change • Intervention in specific circumstances.	Full rates band in effect for 2030-2040 LTPs.

Office of the Minister of Local Government

Chair
Cabinet Economic Policy Committee

Rates Capping: Detailed policy design

Proposal

1. This paper seeks Cabinet's decisions on detailed policy design for the target range model for rates capping to be implemented in New Zealand.

Relation to government priorities

2. The Government expects councils to deliver the basics, live within their means to keep rates increases manageable, and be more transparent and accountable to the communities they represent. The rates cap is part of a series of local government reforms for this purpose, including Local Water Done Well, City and Regional Deals, Local Government System Improvements, and Simplifying Local Government.

Executive summary

3. Since 2024, the Government has been developing a rates cap to address the steep and unsustainable increases in council rates. Rates now make up a growing share of household costs, with many communities experiencing double-digit annual increases. While rates fund essential services, recent increases have added to cost-of-living pressures. The rates cap is intended to provide greater predictability and restraint in rates increases while maintaining councils' ability to deliver core services.

4. Cabinet previously agreed the system should be independent, transparent, cost-reflective, and responsive to local circumstances [EXP-25-MIN-0038], and agreed in principle to a target range model for the rates cap, subject to targeted consultation [ECO-25-MIN-0189]. This paper seeks Cabinet's agreement to the overall design of the model and approval to issue drafting instructions for legislation.

5. The rates cap will help manage cost-of-living pressures by limiting the pace of rates increases while encouraging stronger financial management and more effective delivery of public services. It will apply to all sources of rates and council spending, except water services, which are being addressed through Local Water Done Well. Councils will continue to have access to alternative funding and financing mechanisms to support the delivery of core services.

6. The model sets a target range for rates increases anchored to long-run economic indicators and overseen by an independent regulator. The range will allow councils to maintain infrastructure and essential services while keeping rates increases sustainable for households. I expect the range to be approximately 2–4 percent, with the final range set by the Minister of Local Government on the advice of the regulator.

7. The model also includes flexibility mechanisms. Councils will comply with the target range on average over multi-year periods within their long-term plans and may seek approval to operate outside the range in limited circumstances, such as exceptional events or where councils can demonstrate prudent financial management.

8. An independent regulator will oversee the model to ensure consistent application. An interim regulator will operate until the permanent regulator is established, expected by 1 January 2028.

Setting and managing the target range for the rates cap

9. In my November Cabinet paper, I sought agreement to undertake targeted consultation with local government and rating agencies on the rates cap target range model. As part of this consultation, the main themes that emerged were that the proposed model did not adequately reflect councils' cost pressures and was overly inflexible.

10. To address these and better align the model to Cabinet's rates capping principles, I recommend some high-level design features.

Ensuring the rates cap reflects councils' costs

11. Consultation highlighted concerns that councils may face significant cost pressures outside their control, such as high inflation, elevated interest rates, or new obligations imposed by central government.

12. In my November Cabinet paper, I provided a draft formula for calculating the target range based on long-run economic indicators. Feedback indicated that relying on the Consumer Price Index does not adequately reflect the cost pressures faced by councils, whose expenditure is heavily weighted toward infrastructure. I therefore consider that adjustments may be required to the formula, including the use of alternative economic indicators that better capture councils' costs. Despite this change, I expect the final range to remain broadly consistent with the initially proposed range of 2–4 percent.

13. To ensure the target range remains appropriate over time, I recommend requiring the regulator to complete a post-implementation review in 2033/34. The review would consider councils' actual cost pressures and any changes to their statutory responsibilities. I also recommend that the Minister be able to direct the regulator to undertake a review at any other time.

14. I will report back to Cabinet on the proposed approach to setting the target range alongside seeking agreement to introduce the Bill. I also seek delegated authority to finalise the target range methodology for the Bill and issue drafting instructions to Parliamentary Counsel.

Providing flexibility to ensure compliance

15. To provide councils with greater flexibility while maintaining discipline on rates increases, I recommend that the target range applies as an average across three blocks within each council's long-term plan (LTP) cycle (two three-year blocks and one four-year block). This would allow councils to exceed the range in a particular year where necessary, provided this is offset by lower increases in other years. For example, a council could plan its LTP like:

Block 1: Years 1-3	Year 1	Year 2	Year 3	3-year average
% rates increase	2%	2.5%	3.5%	2.6%

Block 2: Years 4-6	Year 4	Year 5	Year 6	3-year average
% rates increase	5%	2%	3%	4%

Block 3: Years 7-10	Year 7	Year 8	Year 9	Year 10	4-year average
% rates increase	3%	3.5%	2%	4%	3.1%

16. Applying the range across multi-year averages would reduce the need for councils to seek approval to operate outside the range for a single year.

17. Consistent with Cabinet decisions [ECO-25-MIN-0189], the model will also allow variations from the target range in two circumstances.

18. **Exceptional circumstances:** To allow councils to increase rates above the target range to recover from situations that are unpredictable, unforeseen, or extreme, where the council could not have been reasonably expected to plan for an event and cannot wait until the next LTP to seek a variation to support longer-term recovery.[1] It is expected that these situations would require a response from beyond just the council (i.e., from Government).

19. I recommend that these variations be approved by the Minister of Local Government, following advice from the regulator, if:

    19.1 there have been exceptional circumstances; and

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

20. **Future financial planning:** Every three years, councils may also seek approval to increase rates above or below the target range where they can demonstrate prudent financial management. If approved, they will then be required to undertake an appropriate community consultation process. These variations are expected to apply primarily in years 1–3 of an LTP and the threshold for approval will be high.

21. When assessing variations *above* the target range, the regulator must consider the following statutory factors when determining whether a council has demonstrated prudent financial management:

    21.1 how the council has considered the purpose of local government, core services and devolved statutory functions in its financial management approach;

    21.2 how the council has used other funding and financing sources (for example, recovering regulatory costs where possible);

    21.3 whether the council has considered asset recycling; and

    21.4 the council's plan to return to the target range over an agreed timeframe.

22. For variations *below* the target range, the regulator must consider whether the council is appropriately funding depreciation and maintaining assets in line with its asset management plans.

23. Detailed processes for both types of variation are set out in **Appendix A**.

24. I also recommend that the Bill include a power to prescribe, through secondary legislation, standards, measures, or other thresholds that demonstrate prudent financial management in specified circumstances. These standards could supplement or replace the regulator's discretion over time.

Publication of the target range

25. I recommend that the Minister of Local Government, on advice of the regulator, sets and publicly publishes the target range every six years, one year ahead of an LTP cycle. The target range cannot realistically be set more than one year before the LTP deadline without compromising the balance of evidence of the impacts of past changes in obligations, changes in experienced costs, and changes to population figures. The target range will need to be set for a 13-year period, so that councils have the necessary information for two LTP cycles.

Regulating the rates cap

Objectives of regulatory oversight

26. Effective regulatory oversight is key to implementing the rates cap. The regulator must:

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[1] Examples could include natural disasters or catastrophic infrastructure failures.

26.1 provide credible, transparent information about rates targets and whether councils are operating within them;

26.2 encourage and support compliance with the rates targets;

26.3 enable flexibility in exceptional circumstances;

26.4 complement existing processes for community participation in council decision-making; and

26.5 monitor application of the rates cap against the objectives of the regime.

Roles and functions of a rates cap regulator

27. The regulator's role should be tightly focused on the core requirements for the model. This may mean relying on existing checks and balances in the local government system in some instances. The regulator's role also needs to align with existing financial planning and reporting requirements on local authorities and existing oversight and intervention mechanisms.[2]

28. I recommend that the regulator's role would be to:

28.1 advise the Minister of Local Government on calculating the target range;

28.2 review any requests from a council for a variation to the target range, and:

28.2.1 if the variation is to support the response to an exceptional circumstance, provide advice to the Minister of Local Government; or

28.2.2 in all other cases, approve or refuse the variation after determining whether a council has demonstrated prudent financial management (see paragraphs [20-22] above and **Appendix A**);

28.3 monitor councils' compliance with the rates target range;

28.4 publish a report every three years on general trends, observations, issues and risks in the implementation of the model;

28.5 undertake a post-implementation review, including considering councils' actual cost pressures and any changes to their statutory responsibilities after three years of full implementation (and at other times if directed by the Minister of Local Government) and provide recommendations to the Minister; and

28.6 provide guidance material for councils to support the process.

29. Once the proposed target range model comes into full effect, it will be unlawful for a council to set rates that are outside the target range. There are strong incentives on councils to ensure their rates are validly set. However, if a council did adopt a long-term plan which forecast rates outside the target range, or adopted a rates resolution that put the council outside the target range, I recommend that the regulator be given the power to direct a council to remake the decision. This will provide a faster and more direct route to a remedy, rather than relying on individuals or groups to take judicial review proceedings against the council. For any persistent or systematic non-compliance there would also be the backstop of Ministerial intervention powers under Part 10 of the Local Government Act 2002 (LGA).

Who would be the regulator?

30. As mentioned in paragraph 4, one of the principles guiding the rates cap system is that decisions would be made by an independent authority. An independent decision-maker could be hosted by a government department or be an independent entity.

31. I intend that the regulator functions will initially be undertaken by the chief executive

[2] e.g., Office of the Auditor-General functions and intervention powers under Part 10 of the LGA.

(CE) responsible for the Local Government (Rating) Act 2002 and then move to an independent body. From 1 July 2026 the responsible CE is intended to be the CE of the Ministry of Cities, Environment, Regions and Transport (MCERT) [name TBC].

32. The main options for an independent regulator are:

 32.1 an independent statutory entity within MCERT; or

 32.2 an existing Crown entity; or

 32.3 a new bespoke Crown entity.

33. Officials are undertaking further work on options for filling the regulator role. I will seek Cabinet's agreement to which organisation will be the regulator alongside seeking Cabinet Legislation Committee agreement to introduce the Bill. I seek delegated authority to issue drafting instructions to Parliamentary Counsel outlining the preferred independent regulator in the Bill.

34. Funding is required for the independent regulator.

Transition to a rates cap

35. In November 2025 Cabinet agreed that legislation for the model will be enacted and effective by 1 January 2027 with a transition period until the rates cap is fully implemented on 1 July 2029. During the transition period, councils must consider the range when setting rates, but it will not be mandatory for them to operate within it. To prevent councils taking advantage during this time, they will be subject to increased information disclosure requirements and monitoring [ECO-25-MIN-0189].

36. The rates cap will align with existing council processes. Councils must produce 10-year LTPs every 3 years. Their next LTPs will commence on 1 July 2027. This looks like:

37. The first target range, for the transition, would be published at the beginning of 2027. The second iteration of target range would be issued by mid-2029 for the 2030-2040 LTPs, and every six years after that. More detail on how the rates cap will work with existing council processes and timeframes is included at **Appendix B.**

Variations to the target range in FY 2029/30

38. I recommend that variations to the target range (for future financial planning reasons) are permitted in FY2029/30 to enable individual councils to address infrastructure issues and continue capital works programmes (some of which are significant and involve central government co-investment). Without a variation process for FY2029/30, these programmes may be put at risk.

39. Several options have been considered in the policy development and all carry risks. However, I see these risks being outweighed by having the rates cap begin in mid-2029. I recommend that the interim regulator be able to approve variations for FY2029/30, on an invitation only basis, in early 2027.

Regulatory functions for the transition

40. There is insufficient time to establish a permanent regulator by 1 January 2027. I recommend that the chief executive of MCERT be the interim regulator for the first year

of operation of the rates target model (until 1 January 2028). As well as considering and deciding target range variations for FY 2029/30 (as per paragraph 37), the interim regulator's role would also involve:

40.1 developing policies and guidance for councils and Government agencies; and

40.2 advising the Minister of Local Government on how to calculate the target range for 2027–2037.

41. MCERT would also have a role monitoring councils' rates increases and compliance with the target range between 1 January 2027 and 1 July 2029, having particular regard to:

41.1 rates increases relative to the forecast increases in councils' 2024 LTPs;

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

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

Implementation

42. Rates capping is being considered in the context of the new regulatory regimes for Local Water Done Well, development levies, resource management, emergency management, regulatory regimes for climate adaptation, waste legislation amendments and changes arising from the Simplifying Local Government proposal, as well as the City and Regional Deals programme. It will be critical to ensure that implementation and transitional arrangements consider the broad range of local government reform and other programmes currently underway.

The approach to debt management issues for councils

43. Debtors should know that they will be made whole in the unlikely event of a council having significant financial management issues. It is not expected that the Crown promise to meet the costs, as it would lead to moral hazard issues for councils. I recommend that the Bill will confirm that a rate set by a receiver (appointed under the Receiverships Act 1993) would be excluded from the rates that the target range applies to. In the same way, I propose that if a Commission has been appointed to a council, the Commission can set rates increases above the maximum of the target range for the purpose of repaying creditors where the council has defaulted.

44. Prior to receivership, I expect that the Local Government Funding Agency will work alongside councils and the regulator on amending terms of their debt or applying for a variation to the rates cap.

Impact on Government priorities

45. Councils and Government agencies are concerned about how councils will meet the costs of devolved responsibilities, jointly funded programmes, or other Government priorities for the overall public good.

Cost-of-living implications

46. The rates cap is intended to apply price regulation to councils to put downward pressure on rates. The rates cap will ensure councils align expenditure with the core services legislation resulting in a reduction of non-core expedition that impacts rates bills.

Financial implications

Implications on ratepayers and councils

47. An overview of these implications is in my November 2025 Cabinet paper [ECO-25-SUB-0189]. There is also likely to be a cost on councils in applying for a variation. The

costs are unknown until the system is in place and the regulator determines operational policy. However, variation processes are intended to be as low-cost as possible, and to integrate into existing council processes e.g. the LTP.

Establishing a regulatory regime

48. The costs of the interim regulator will be met by reprioritising current resourcing within the local government policy function in the Department of Internal Affairs.

9(2)(f)(iv)

51. If there is no permanent regulator in place by January 2028 the interim (non-independent) regulator would likely need to remain in place.

Modelling of impacts of target range model for a rates cap

52. In November 2025, Cabinet asked for worked examples using actual council financial information, showing planned expenditure mapped against rates revenue allowable by the rates target [ECO-25-MIN-0189]. These are attached at **Appendix C**.

Legislative implications

53. A mix of primary and secondary legislation is needed to implement this policy. The Parliamentary Counsel Office were consulted on this paper. Enabling legislation (the Bill) has been given a Category 5 priority (to proceed to select committee before the 2026 General Election). It is intended that regulations will be required to provide detail on setting the target range.

Impact analysis

Regulatory Impact Statement

54. The Department of Internal Affairs' Regulatory Impact Analysis (RIA) quality assurance panel considers that the information and analysis in the regulatory impact statement partially meets the quality assurance criteria. A Supplementary Analysis Report (SAR) was also provided following the panel's finding that the first RIA from November 2025 did not meet the quality assurance criteria. The panel considered that the SAR meets the quality assurance criteria. Additionally, the policy proposals have changed since the RIS was assessed by the panel and do not match the Cabinet paper. The main differences between the preferred option in the RIS and the Cabinet paper are:

    54.1 the RIS states that the target range will be set by the regulator and the proposal is that the Minister of Local Government will do this on the advice of the regulator;

    54.2 the RIS assumes the target range calculation will include an explicit cost reconciliation process;

    54.3 the RIS states that there will not be a single target range for all local authorities and the proposal is that there will only be one target range (for the price component of rates increases); and

    54.4 the RIS states that the target range will be set every 3 years and the proposal is that this will be every 6 years.

55. The Ministry for Regulation and Department of Internal Affairs have agreed that a post-implementation review will be undertaken three years after the rates cap is implemented and provided to Cabinet in 2033.

Climate Implications of Policy Assessment

56. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal, as the threshold for significance is not met.

Population Implications

57. The Department of Internal Affairs has prepared an analysis of this policy for consistency with the Treaty of Waitangi. The introduction of a rates cap may limit councils' financial capacity to meet their statutory and Treaty-related responsibilities; however, the design of the target range is such that these costs are intended to be met within the lower bound of the range. The rates cap does not intend to alter existing approaches to rating Māori land.

Human Rights

58. No potential human rights implications or inconsistencies with the New Zealand Bill of Rights Act 1990 or Human Rights Act 1993 have been identified from these proposals.

Use of external resources

59. An Independent Reference Group provided assurance and verification of elements of the rates cap development to the Department of Internal Affairs, and independent advice to myself.

Consultation

Targeted consultation

60. Between November 2025 and February 2026, the Department of Internal Affairs engaged with the following stakeholders as part of targeted consultation: peak sector bodies (LGNZ and Taituarā), non-LGNZ member councils, the New Zealand Initiative, the New Zealand Taxpayers' Union, New Zealand Council of Trade Unions, Infrastructure New Zealand, New Zealand Institute of Economic Research, Business and Economic Research Ltd., Infometrics, Federated Farmers of New Zealand, Te Uru Kahika – Regional and Unitary Councils Aotearoa. Insight Economics and Motu Research were also contacted but were unable to engage. A summary of themes from consultation is included in the Regulatory Impact Statement.

Central government consultation

61. The following agencies were consulted on this paper: the Commerce Commission, the Department of Conservation, the Department of the Prime Minister and Cabinet, Kāinga Ora, the Ministry for the Environment, the Ministry for Regulation, the Ministry of Business, Innovation and Employment (MBIE), the Ministry of Justice (MOJ), the Ministry for Culture and Heritage, the Ministry of Housing and Urban Development, the Ministry for Primary Industries, the Ministry of Social Development, the Ministry of Transport, the National Emergency Management Agency, the New Zealand Transport Agency, Sport New Zealand, Te Puni Kokiri, Te Waihanga (the New Zealand Infrastructure Commission), and the Treasury. A summary of agency feedback is attached as **Appendix D**.

62. MOJ advised that the proposal for a rates capping regulator affects New Zealand's constitutional arrangements and therefore the Cabinet Manual requires issues of process

and appropriate public participation must be clearly and fully addressed in the Cabinet paper. MOJ noted the shift in the location of power between local and central government (by subjecting local decisions to the review of a centrally located decision-maker) in relation to fundamental powers involving the levying of taxes. MOJ further commented that constitutional change requires a higher degree of public participation to help ensure it is regarded as legitimate by all New Zealanders, noted the absence of consultation with iwi/hapu or other Māori representative groups, and said that the process for developing the proposals may be considered in breach of the Treaty principles.

63. 9(2)(g)(i)

64. Exerting greater central control over local decision-making is at the heart of rates capping policy. That is how we are addressing the impact of council rates increases on the cost of living. I have considered options for the regulator's role and functions, and I am satisfied that my proposal strikes a good balance. I do not intend to consult further between the targeted engagement that concluded in February and the select committee process.

Communications

65. Announcements will be made at the point of introduction of the Bill to the House.

Proactive release

66. I intend to proactively release this Cabinet paper within 30 business days of decisions being confirmed by Cabinet, unless there is a good reason not to publish all or part of the material.

Recommendations

The Minister of Local Government recommends that the Cabinet Economic Policy Committee:

1. **Note** that on 1 April 2025 and on 17 November 2025, Cabinet made prior decisions on the rates capping system [EXP-25-MIN-0038 and ECO-25-MIN-0189];

Setting and managing the target range

2. **Authorise** the Minister of Local Government to determine the target range methodology for the Bill and issue drafting instructions to Parliamentary Counsel;
3. **Note** that in the Cabinet Legislation Committee paper seeking approval for introduction of the Bill, I will also seek agreement on how to set the target range;
4. **Agree** that the target range applies as an average across three blocks within each council's long-term plan (LTP) cycle (two three-year blocks and one four-year block);
5. **Agree** that every six years the Minister of Local Government, on advice of the regulator, sets and publishes the target range for the next thirteen years, a year before councils are due to adopt their next LTPs;

Variations for exceptional circumstances (situation 1)

6. **Agree** that the Minister of Local Government, on advice of the regulator, determines if there have been exceptional circumstances, and whether a variation to the target range is necessary or desirable to enable the local authority to respond to or recover from the exceptional circumstances;

Variations for future financial planning (situation 2)

7. **Agree** to the process for variations for future financial planning, including that the regulator assesses a council's "prudent financial management" (in **Appendix A**);
8. **Agree** that in assessing prudent financial management for variations ***above*** the target range a regulator must consider the following mandatory statutory factors:
   - 8.1 how the council has considered the purpose of local government, core services, and devolved statutory functions in their financial management;
   - 8.2 how the council has made use of other funding and financing sources;
   - 8.3 whether the council has considered asset recycling; and
   - 8.4 the council's plan to return to its target range over an agreed timeframe;
9. **Agree** that in assessing prudent financial management for variations ***below*** the target range the regulator must consider whether the council is appropriately funding depreciation and maintaining assets in line with its asset management plans;
10. **Note** that compliance with existing prudent financial management regulations is not, by itself, sufficient to demonstrate prudence for the purposes of rates targeting;
11. **Agree** that the Bill includes the power for the Government to specify, in secondary legislation, standards, measures, or other thresholds that must be met to demonstrate prudent financial management in specified circumstances;
12. **Agree** that a regulator has regard to any additional, unbudgeted transition costs resulting from reforms impacting local government (e.g., Simplifying Local Government) when determining a variation;

Regulating the rates cap

13. **Agree** to the following functions, duties, and powers for the rates capping regulator:
    - 13.1 advising the Minister of Local Government on how to calculate the target range;
    - 13.2 reviewing any requests from a local authority for a variation to its rates target range, and
      - 13.2.1 if the variation is to support the response to an exceptional circumstance, provide advice to the Minister of Local Government as required; or
      - 13.2.2 in all other cases, approve or decline the variation after determining a councils' financial management (using mandatory statutory considerations);
    - 13.3 monitoring local authorities' compliance with the rates target range;
    - 13.4 publishing a report every three years on general trends, observations, issues and risks in the implementation of the model;
    - 13.5 undertaking a post-implementation review, including considering councils' actual cost pressures and any changes to their statutory responsibilities, after three years of full implementation (and at other times if directed by the Minister of Local Government) and provide recommendations to the Minister; and
    - 13.6 providing guidance material for councils to support the process;
14. **Agree** that if a council:
    - 14.1 adopts a long-term plan with forecast rates outside its target range; or
    - 14.2 adopts a rates resolution that is outside its target range;

    without having an approved variation, the regulator will have the power to direct the council to remake the decision;
15. **Note** that the Department of Internal Affairs is undertaking further work on options for filling the regulator role;

16. **Authorise** the Minister of Local Government to make decisions on the independent regulator, and issue drafting instructions to Parliamentary Counsel to include this in the Bill, subject to confirming this decision when seeking Cabinet agreement to introduce the Bill;

17. 9(2)(f)(iv)

Transition to a rates cap

18. **Agree** that, prior to the permanent regulator being established, the interim regulator will be the chief executive of the department responsible for administering the Local Government (Rating) Act 2002;

19. **Note** that from July 2026, it is intended that the interim regulator will be the chief executive of the Ministry of Cities, Environment, Regions and Transport (name to be confirmed);

20. **Agree** that the interim regulator will be able to approve variations for FY2029/30, on an invitation only basis, from early 2027;

21. **Agree** to the additional interim regulatory functions being:

    21.1 developing policies and guidance for councils and Government agencies; and

    21.2 advising the Minister of Local Government on how to calculate the target range for 2027–2037;

22. **Agree** that the chief executive of the department responsible for administering the Local Government (Rating) Act 2002 will also be responsible for monitoring councils' rates increases and compliance with the target range between 1 January 2027 and 1 July 2029, having particular regard to:

    22.1.1 rates increases relative to the forecast increases in councils' 2024 LTPs;

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

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

Drafting instructions

23. **Invite** the Minister of Local Government to issue drafting instructions to the Parliamentary Counsel Office for a bill to give effect to the policy decisions in this paper;

24. **Authorise** the Minister to make decisions on subsequent matters arising from legislative drafting that align with the overall policy intent;

Other

25. **Note** the worked examples at **Appendix C** using actual council financial information, showing planned expenditure mapped against rates revenue allowable by the rates target (as requested by Cabinet in November 2025);

26. **Agree** that a rate set by a receiver will be excluded from the scope of the target range for rates increases; and

27. **Agree** that if a Commission has been appointed to a council under Part 10 of the Local Government Act 2002, the Commission can set rates increases above the maximum of the target range for the purpose of repaying creditors where the council has defaulted.

Authorised for lodgement

Hon Simon Watts
Minister of Local Government

Appendix A: Detailed information on variations from the rates cap

Variations for exceptional circumstances (Situation 1)

1. These variations are intended to allow councils to increase rates above the target range to recover from situations that are unpredictable, unforeseen or extreme – the types of circumstances that go beyond the reasonable expectation for contingency planning in a council's LTP, and where the council might not be able to wait until the next LTP to seek a variation.[3] It is expected that these situations would require a response beyond just the council and include coordination between central and local government. The variation would be to support longer-term recovery (as distinct from the immediate emergency response).

2. These variations are not intended to remove the need for local authorities to plan and budget to meet their responsibilities under current and proposed legislation to mitigate the potential impact of natural hazards. This includes reducing risk (through avoidance and mitigation such as managing flood risk) as well as having trained personnel and the necessary planning to protect people and property in an emergency and support an effective recovery.

3. I recommend that these variations be approved by the Minister of Local Government, on advice from the regulator, if:

   3.1 There have been exceptional circumstances; and

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

4. 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.

5. I note that having the Minister of Local Government as decision-maker on these variations is a step away from the previous policy intent that the decisions would be determined by an independent authority. I consider this is appropriate for exceptional circumstance variations because there is likely to be combined central government and local government recovery planning underway.

Variations for future financial planning (Situation 2)

6. These variations allow a council to propose rates increases that are above or below the target range, so long as the council has undertaken prudent financial management (as determined by the regulator) and community engagement.

7. I recommend the following process:

   7.1 Step 1: Council applies for a variation a year before they are due to adopt their long-term plan.

   7.2 Step 2: The regulator assesses whether the council's variation can proceed to consultation. The assessment will be based on council's financial management. This is likely to involve discussions with the council. It will also include how to return to the target range over an agreed timeframe.

   7.3 Step 3: The variation application is either accepted or declined. If accepted, the council can consult on the variation. If declined, the regulator will work with the council on improvements.

   7.4 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

[3] Examples could include natural disasters or catastrophic infrastructure failures.

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.

8. Since these variations are aligned with council's existing long-term plans processes, the implications are that 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 target range.

9. Even with this variation process, risks remain that councils cancel capital investment projects, which will have implications for councils' ability to provide for urban growth in their districts.

Assessing "prudent financial management"

10. I recommend the regulator would have some discretion in making this assessment, but would have to take into account mandatory statutory considerations. For variations *above* the target range, the considerations are:

    10.1 how the council has considered the purpose of local government and core services in their financial management approach, as well as statutory functions devolved to local government;

    10.2 how the council has used other funding and financing sources (for example, recovering regulatory costs where possible);

    10.3 whether the council has considered asset recycling; and

    10.4 the council's plan to return to the target range over an agreed timeframe.

11. For variations *below* the target range, the regulator must consider whether the council is appropriately funding depreciation and maintaining assets in line with its asset management plans.

12. For both variations, the regulator should also consider how the council has planned and budgeted for responding to emergencies (including reducing risk).

13. The rates cap needs to work with other reform impacting local government. For example, councils may need additional rates revenue to fund transition costs related to Simplifying Local Government reforms. I recommend the regulator has due regard to any additional, unbudgeted transition costs resulting from these reforms when determining a variation.

14. The regulator should take into account existing guidance on prudent financial management[4] and the Local Government (Financial Reporting and Prudence) Regulations 2014, but being prudent for the purposes of rates capping does not only mean compliance with these regulations.

15. I also recommend that the Bill include a power to prescribe, through secondary legislation, standards, measures, or other thresholds that demonstrate prudent financial management in specified circumstances. These standards could supplement or replace the regulator's discretion over time.

[4] Such as the Local Government Funding Agency's 2021 report on *Best Practices in Council Financial Management.*

Appendix B: Timeline of rates capping and existing council processes

Year 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:[5] - Provides guidance - 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 post-implementation review.
Minister: - Sets range for 2027-2037.	**Minister**: - Receives advice.	**Minister**: - Receives advice.	**Minister**: - Sets range for 2030-2043 (by 1 July 2029).	**Minister**: - Determines any exceptional circumstances variations.	**Minister**: - Determines any exceptional circumstances variations.	**Minister**: - Determines any exceptional circumstances variations.	**Minister**: - Determines any exceptional circumstances variations.	**Minister**: - Determines any exceptional circumstances variations.
Interim regulator: - Advises Minister on range for 2027-2037 (by early January 2027). - Invites councils to apply for variations for 2029/30. - Decides variations for 2029/30 (by April 2027). - Monitors councils' consideration of targets.	**Regulator**: - Stood up no later than 1 Jan 2028. - Takes over monitoring function. - Provides guidance.	**Regulator:** - Advises Minister on range for 2030-2043. - Provides guidance.	**Regulator:** - Decides variations for 2030 (by October 2029). - Provides guidance.	**Regulator:** - Provides guidance.	**Regulator:** - Provides guidance.	**Regulator:** - Decides variations for 2033 (by October 2032). - Provides guidance.	**Regulator:** - Post-implementation review of formula. - Provides guidance. - 3yrly report on trends (early 2034).	**Regulator:** - Advises Minister on range for 2036-2049 (to set by 1 July 2035). - Provides guidance.
Councils: - Required to consider range 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), including any variations. - Adopts LTP by 30 June 2027.	**Councils**: - Required to consider range.	**Councils:** - Required to consider range.	**Councils:** - Must operate within range from 1 July 2029. - 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 range applies. - Variations for 2030 LTP take effect.	**Councils:** - 2030-2040 range applies.	**Councils:** - 2030-2040 range applies. - 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 range applies. - Variations for 2033 LTP take effect.	**Councils:** - 2033-2043 range applies.
Note: General Election 2026		**Note:** Local elections 2028	**Note:** General Election 2029		**Note:** Local elections 2031	**Note:** General Election 2032		**Note:** Local elections 2034

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

Appendix C: Modelling of a selection of councils under the proposed cap[6]

Based on long-term plan data, council rates increases per unit are likely to continue increasing at a faster rate than the top of the target range until at least 2027, with some councils continuing to increase rates per unit faster than the top of the target range until 2034. Historically, council long-term plans underestimate the rate of increases in the outyears. Based on this pattern, we would expect the increases in 2030–2034 to be higher than forecast in 2024. These figures do not include water spending (wastewater, drinking water, stormwater).

Based on the 2024 long-term plan, Auckland would be able to stay within the range without needing a variation above the target range over the course of the period to 2034. Hutt City Council, and Kapiti District Council would not, and would need to either reduce spending, or apply for a variation.

Auckland	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Total rates (excluding water rates) ($'000)	2560405	2774610	3053583	3200862	3349096	3519752	3699574	3844679	4027058	4213433
Forecast rating units	624317	635555	647312	657540	666877	676480	686289	696583	705360	714530
Total rates per RU (excl. water) ($)	4101	4366	4717	4868	5022	5203	5391	5519	5709	5897
Change from previous year (%)		6.45%	8.06%	3.19%	3.17%	3.60%	3.61%	2.39%	3.44%	3.29%

Kapiti Coast District Council	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Total rates (excluding water rates) ($'000)	76367	79251	86308	93621	101641	110808	122066	133289	145190	159045
Forecast rating units	26046	26333	26625	26920	27219	27521	27826	28135	28447	28763
Total rates/RU (excl. water) ($)	2932	3010	3242	3478	3734	4026	4387	4737	5104	5529
Change from previous year (%)		3%	7.71%	7.28%	7.37%	7.82%	8.95%	7.99%	7.73%	8.34%

Hutt City Council	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Total rates (excluding water rates) ($'000)	113927	126207	138325	153472	169104	192012	204452	222050	239521	258510
Forecast rating units	43287	43764	44245	44732	45224	45721	46224	46733	47247	47766
Total rates/RU (excl. water) ($)	2632	2884	3126	3431	3739	4200	4423	4751	5070	5412
Change from previous year (%)		9.57%	8.41%	9.74%	8.99%	12.31%	5.32%	7.42%	6.69%	6.76%

[6] This modelling is prepared on the basis of a 2–4% target range of increases.

Appendix D: Summary of feedback from central government agencies

Department	Summary
Sport NZ	Concerned that the policy risks councils deprioritising sport and recreation as "nonessential" but notes the proposed variation process for future financial planning could offer a pathway for justified locally supported spending on major sport and recreation projects or events.
NEMA	Makes specific suggestions around variations: - That the two types of variations be linked by making planning for exceptional circumstances an example of prudent financial management. - More specific focus on risk-reduction for variations for exceptional circumstances. - Statutory responsibilities passed on by Government should be a consideration for variations for future financial planning.
MBIE	*Tourism and Hospitality* Notes that local government funding is critical to tourism growth, and that rates capping could reduce councils' ability to support this. This may undermine regional visitor experiences, the tourism sector, and national economic outcomes. *Building Performance and Resilience* Suggests noting that a rates cap may increase council charges for cost-recoverable services like building consents. 9(2)(g)(i)
MHUD	Concerned that rate capping could have a negative impact on councils' ability to provide for urban growth in their districts. Raised potential risk of a scaling back of council delivery of key infrastructure projects needed to enable growth.
Treasury	Suggests fully considering the effect of multiple concurrent local government reforms, clearly excluding infrastructure investment from any rates cap, and including worked examples based on council data. Also seeks more clarity on options for the regulator, associated analysis, and long-term funding for a permanent regulator.
MPI (Resources and Rural Communities)	Supports an independent regulator and favours MCERT as the permanent home for the regulator rather than the Commerce Commission. Suggests addressing risks such as biosecurity incursions, catastrophic infrastructure failures, and unexpected impacts from national-level regulatory changes through situation 1 variations. Also highlights capacity pressures on smaller councils and a likelihood of increased fees and charges offsetting any potential cost-of-living benefit of the policy.
OAG	Suggests more considerations on the timelines for auditing of LTPs and consultation and highlights the complexity of the timeframe for transitional arrangements. Notes that reduced fiscal flexibility could affect council credit ratings and suggests engaging with the LGFA.
MOT	Concerned about potential underinvestment in local roads and public transport which would put pressure on the National Land Transport Fund for assistance and require revisiting planned transport activity levels in the National Land Transport Plan. Notes potential conflict of interest if MCERT acts as both transport investment adviser and regulator for council rates.

Department	Summary
	Highlights the impracticality of confining metro rail spending within a target range and stresses better understanding of complex metro rail funding arrangements and the cost effects over time.
Infrastructure Commission	Considers the implementation of this regime too complex when compared with focusing simply on strengthening existing long-term planning and assurance processes. Suggest further consideration of the potential burden on councils amid multiple reforms, creating funding and capacity pressures for MCERT or a permanent regulator, and introducing implementation, costing, and sequencing risks that could undermine infrastructure delivery.
MfE	*Waste Minimisation* Asks practical questions about how DIA's proposed consistent data requirements will align with existing waste-reporting obligations and seeks clarity on how core service definitions in the amended Local Government Act relate to the rates cap. *Adaptation Business Unit* Concerned that the rates target (and variations process) will deter uptake of adaptation planning. It has the potential to cause councils not to select options for risk management that may have initial high cost but represent the best option for 'least long-term societal cost'. This means pulling in the opposite direction from objectives in the National Adaptation Framework. Supports the variation, averaging and cost reconciliation mechanisms for facilitating expenditure associated with the planning reforms. The mechanisms enable new statutory obligations to be accounted for in calculating the target range (or variations to it) - including, for example, new obligations in regard to regulatory relief.
DOC	Concerned about how rates capping, in conjunction with proposed changes to Part 1 of the Local Government Act 2002, will impact priority activities such as reserves.
MSD	*Regional and communities* Interested in the detail of what the shift will be in the types of services and service levels from councils because of a rates cap.
MfR	Supports anchoring the scheme within the existing Local Government Act framework regarding consequences for financial management. Warns of unintended consequences and impacts on councils' ability to borrow, and to fund debt at favourable rates from the LGFA. It highlights uncertainty about the values of costs and benefits, concerns about the complexity and subjectivity of the regulator's role and asks for more detail on the regulator's planned powers, guidance, and interventions.
Te Puni Kōkiri	Notes limited evidence for the conclusion that the model has no direct impacts on Māori, a lack of Māori engagement, and unclear protection of Treaty responsibilities within a constrained rating system. Recommend strengthening the analysis, clarifying regulatory interactions (including for whenua Māori), and ensuring Treaty-consistent implementation over time.
MOJ	*Constitutional and Treaty* MOJ advised that the proposal for a rates capping regulator affects New Zealand's constitutional arrangements and therefore the Cabinet Manual requires issues of process and appropriate public participation must be clearly and fully addressed in the Cabinet paper. The proposal affects the powers of democratically elected bodies by removing functions and powers to a newly created regulator. It relates to fundamental powers involving the levying of taxes. It is significant that the regulator can direct local councils on the content of their

Department	Summary
	long-term plans. There is a shift in the location of power between local and central government (by subjecting local decisions to the review of a centrally located decision-maker). There are risks of reduced public trust in government and reduced engagement in democratic processes arising from reduced direct citizen engagement in the process of governance. MOJ noted that constitutional change requires a higher degree of public participation to help ensure it is regarded as legitimate by all New Zealanders. MOJ also noted the absence of consultation with iwi/hapu or other Māori representative groups and said that the process for developing the proposals may be considered in breach of the Treaty principles.

Cabinet

Minute of Decision

Rates Capping: Detailed Policy Design

Portfolio **Local Government**

On 30 March 2026, following reference from the Cabinet Economic Policy Committee, Cabinet:

Background

1 **noted** that in April and November 2025, Cabinet made decisions on the proposed rates capping system and agreed in principle to a target model for a rates cap, subject to further policy development on regulatory design [EXP-25-MIN-0038 and ECO-25-MIN-0189];

Setting and managing the target range

2 **authorised** the Minister of Local Government (the Minister) to determine the target range methodology for inclusion in the Bill and to issue drafting instructions to the Parliamentary Counsel Office (PCO) to give effect to that methodology;

3 **noted** that agreement on how to set the target range will be sought at the time that Cabinet approval is sought to introduce the Bill;

4 **agreed** that the target range will apply as an average across three blocks within each council's long-term plan (LTP) cycle (two three-year blocks and one four-year block);

5 **agreed** that every six years, the Minister, on the advice of the rates capping regulator (the regulator), will set and publish the target range for the next thirteen years, a year before councils are due to adopt their next LTPs;

6 **agreed** that, in setting the target range every six years, the Minister must consider:

6.1 any costs that the Minister has reasonable grounds to believe will fall on councils in the next target range period due to Government decisions or legislative change; and

6.2 a backward-looking adjustment for:

6.2.1 costs to councils from Government decisions or legislative change that were not provided for when the previous target range was set; and

6.2.2 unanticipated costs arising from, for example, higher than expected inflation or higher interest rates during the previous target range period;

Variations for exceptional circumstances (situation 1)

7 **agreed** that the Minister, on the advice of the regulator, will determine if there have been exceptional circumstances, and whether a variation to the target range is necessary or desirable to enable the local authority to respond to or recover from the exceptional circumstances;

Variations for future financial planning (situation 2)

8 **agreed** to the process for variations for future financial planning, including that the regulator will assess a council's prudent financial management, as outlined in Appendix A to the paper under ECO-26-SUB-0038;

9 **agreed** that in assessing prudent financial management for variations <u>above</u> the target range, a regulator must consider the following mandatory statutory factors:

9.1 how the council has considered the purpose of local government, core services, and devolved statutory functions in their financial management;

9.2 how the council has made use of other funding and financing sources;

9.3 whether the council has considered asset recycling; and

9.4 the council's plan to return to its target range over an agreed timeframe;

10 **agreed** that in assessing prudent financial management for variations <u>below</u> the target range, the regulator must consider whether the council is appropriately funding depreciation and maintaining assets in line with its asset management plans;

11 **noted** that compliance with existing prudent financial management regulations is not, by itself, sufficient to demonstrate prudence for the purposes of rates targeting;

12 **agreed** that the Bill include the power for the Government to specify, in secondary legislation, standards, measures, or other thresholds that must be met to demonstrate prudent financial management in specified circumstances;

13 **agreed** that a regulator will have regard to any additional, unbudgeted transition costs resulting from reforms impacting local government (e.g. Simplifying Local Government) when determining a variation;

Regulating the rates cap

14 **agreed** to the following functions, duties, and powers for the regulator:

14.1 advising the Minister on how to calculate the target range;

14.2 reviewing any requests from a local authority for a variation to its rates target range, and:

14.2.1 if the variation is to support the response to an exceptional circumstance, provide advice to the Minister as required; or

14.2.2 in all other cases, approve or decline the variation after determining a council's financial management (using mandatory statutory considerations);

14.3 monitoring local authorities' compliance with the rates target range;

14.4 publishing a report every three years on general trends, observations, issues and risks in the implementation of the model;

14.5 undertaking a post-implementation review, including considering councils' actual cost pressures and any changes to their statutory responsibilities, after three years of full implementation (and at other times if directed by the Minister) and providing recommendations to the Minister; and

14.6 providing guidance material for councils to support the process;

15 **agreed** that if a council:

15.1 adopts a long-term plan with forecast rates outside its target range; or

15.2 adopts a rates resolution that is outside its target range;

without having an approved variation, the regulator will have the power to direct the council to remake the decision;

16 **noted** that the Department of Internal Affairs is undertaking further work on options for filling the regulator role;

17 **authorised** the Minister to make decisions on the independent regulator, and to issue drafting instructions to PCO to include these decisions in the Bill, subject to confirming the decisions when seeking Cabinet agreement to introduce the Bill;

18 9(2)(f)(iv)

Transition to a rates cap

19 **agreed** that, prior to the permanent regulator being established, the interim regulator will be the chief executive of the department responsible for administering the Local Government (Rating) Act 2002;

20 **noted** that from July 2026, it is intended that the interim regulator will be the Chief Executive of the Ministry for Cities, Environment, Regions and Transport;

21 **agreed** that the interim regulator will be able to approve variations for FY2029/30, on an invitation only basis, from early 2027;

22 **agreed** to the following additional interim regulatory functions:

22.1 developing policies and guidance for councils and government agencies; and

22.2 advising the Minister on how to calculate the target range for 2027–2037;

23 **agreed** that the chief executive of the department responsible for administering the Local Government (Rating) Act 2002 will also be responsible for monitoring councils' rates increases and compliance with the target range between 1 January 2027 and 1 July 2029, having particular regard to:

23.1 rates increases relative to the forecast increases in councils' 2024 LTPs;

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

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

Legislative implications

24 **invited** the Minister to issue drafting instructions to PCO for a bill to give effect to the above policy decisions;

25 **authorised** the Minister to make decisions on subsequent matters arising from legislative drafting that align with the overall policy intent of the paper under ECO-26-SUB-0038;

Other

26 **noted** the worked examples, set out in Appendix C to the paper under ECO-26-SUB-0038, using actual council financial information and showing planned expenditure mapped against rates revenue allowable by the rates target;

27 **agreed** that a rate set by a receiver will be excluded from the scope of the target range for rates increases;

28 **agreed** that if a Commission has been appointed to a council under Part 10 of the Local Government Act 2002, the Commission can set rates increases above the maximum of the target range for the purpose of repaying creditors where the council has defaulted.

Rachel Hayward
Secretary of the Cabinet

Secretary's Note: *This minute replaces ECO-26-MIN-0038. Cabinet agreed to add recommendation 6.*

Office of the Minister of Local Government

Cabinet Economic Policy Committee

Local Government (Rates Capping) Amendment Bill: Approval for Introduction

Proposal

1. This paper seeks your:

   1.1. confirmation of policy decisions on the target range model for rates capping, which I have made under delegated authority; and

   1.2. approval to introduce the Local Government (Rates Capping) Amendment Bill (the Bill) (**Appendix A**).

Policy

2. Cabinet has agreed to implement a rates cap in New Zealand to promote fiscal responsibility, and the predictability of costs to ratepayers. Cabinet's policy decisions on the rates cap on 12 November 2025 [ECO-25-MIN-0189] and 30 March 2026 [CAB-26-MIN-0099.01] include:

   2.1. there will be a rates cap through a target range model (with a minimum and maximum percentage limit on annual rates increases);[1]

   2.2. individual councils can apply for variations to the rates cap in limited circumstances (variations are referred to as "exemptions" in the Bill);[2]

   2.3. a regulator will oversee the rates cap;[3]and

   2.4. a transition period is needed to allow councils to move to the rates cap.[4]

3. For the purposes of issuing drafting instructions for the Bill, Cabinet authorised me to make decisions on [CAB-26-MIN-0099.01]:

   3.1. the methodology for determining the rates cap target range which will apply to councils;

   3.2. the independent regulator; and

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[1] [ECO-25-MIN-0189].
[2] [ECO-25-MIN-0189], [CAB-26-MIN-0099.01].
[3] [ECO-25-MIN-0189], [CAB-26-MIN-0099.01].
[4] [ECO-25-MIN-0189].

3.3. subsequent matters arising from legislative drafting.

4. The attached version of the Bill incorporates the policy decisions by Cabinet and my delegated decisions. Paragraphs seven to 19 below set out the key provisions in the Bill. Recommendations three to 18 specify the delegated decisions I seek to confirm.

5. The Bill is an omnibus bill. It proposes a range of amendments to the Local Government Act 2002, the Local Government (Rating) Act 2002 and the Legislation Act 2019 (Schedule 4) to meet these policy objectives. The Office of the Clerk has confirmed that the attached version of the Bill conforms with Standing Order 267(1)(a) for introduction of any omnibus bill, as the amendments fit within a single broad policy.[5]

6. 9(2)(f)(iv) [redacted]

The purpose of the Local Government (Rating) Act 2002

7. The purpose of the Local Government (Rating) Act[6] is to promote the purpose of local government by providing flexibility to councils to set, assess and collect rates in a transparent and consultative manner. I consider that the changes we are making through this Bill alter the purpose of the Local Government (Rating) Act and therefore recommend that the purpose of that Act be amended to include:

> (ab) promote fiscal responsibility, and predictability of costs to ratepayers, by providing for a framework to limit annual increases in certain kinds of rates.

Determining the target range

8. The target range will apply only to the rates price, not the increase in total rates.[7] The Bill defines the rates price as: the sum of general rates, uniform annual general charges, targeted rates, and penalties on unpaid rates; divided by the most recent estimate of the total number of rating units.

9. To determine the target range (i.e. minimum and maximum percentage limits on rates increases) the Bill:

9.1. sets a first target range (2-4%) from the date of enactment, which councils will be required to have regard to from 1 July 2027, and operate within from 1 July 2029;

9.2. provides that the Minister of Local Government will set the next target range a year before councils are due to adopt their 2030-2040 long-term plans, and every six years after that;

[5] We have clarified that this is the case currently. 9(2)(h) [redacted]

[6] Section 3, Local Government (Rating) Act 2002.

[7] Total rates revenue will increase because of, for example, new subdivisions. The intent is to put limits on the average "price" of rates based on rating units, not total rates revenue.

9.3. provides that in setting the target range, the Minister of Local Government must consult with local authorities, consider advice from the regulator, and consider costs to local authorities of carrying out their functions;[8]

9.4. provides that when considering the costs to local authorities, the Minister must consider any cost index specified by the regulator; and

9.5. provides that the target range applies to every local authority unless an exemption applies.

Simplifying previous decisions on the target range

10. On 30 March 2026 Cabinet agreed that the target range will apply as an average across three blocks within the council's long-term plan cycle (two three-year blocks and one four-year block).[9] However, in developing the Bill, this proved to be too complicated, especially given the target range will be set every six years. This also meant each target range needed to cover 13 years.[10]

11. Instead, I recommend a simpler legislative approach that still meets the policy intent. The Bill includes that the 10-year target range applies as an average over the first three years of a council's long-term plan. For Years 4-10 of these plans, councils must show that each year's projected future rates increases comply with the target range.

Compliance with the target range

12. To ensure compliance with the target range model, the Bill empowers a regulator to monitor councils' adherence to the law. The Bill also allows for the regulator to direct a council to remake a rating decision if the council adopts a long-term plan with forecast rates outside its target range or adopts a rates resolution that is outside its target range.

Exemptions to the target range

13. To allow limited flexibility to the target range, the Bill provides for different exemptions to the target range (further detail in **Appendix B**):

13.1. allows variations above the target range for exceptional circumstances where it is necessary for responding to, or recovering from, those circumstances; and

13.2. allows variations below or above the target range if councils have demonstrated prudent financial management (as determined by the regulator) and have consulted their communities on the variation.

[8] Costs of carrying out their functions includes any future costs that the Minister has reasonable grounds to believe will fall on local authorities due to Government decisions or legislative change; any costs already incurred by local authorities due to Government decisions or legislative change that were not provided for when the previous target range was set; and any costs already incurred by local authorities as a consequence of unanticipated economic trends or indicators (for example, higher than expected inflation or interest rates).
[9] CAB-26-MIN-0099.01.
[10] CAB-26-MIN-0099.01.

Transition to the target range

14. Schedules 1 and 2 of the Bill provide specific measures to enable a 1 July 2029 start date for full compliance with the rates cap, alongside existing council planning processes.

15. Standard exemption processes cannot be used in the first year of the rates cap (financial year 2029/30) due to misalignment between legislative timing and councils' 2027-2037 long-term plans. The Bill allows exemptions to the target range for financial year 2029/30 in two circumstances, on an invitation-only basis (further detail in **Appendix B**).

    15.1. The first exemption is tightly focused on councils with major capital expenditure underway (or planned) before the Bill is enacted that requires rates increases above the target range. The regulator would identify eligible councils using statutory considerations and invite them to apply for an exemption for financial year 2029/30 only. Under the exemption, the council must have regard to the target range when setting rates for 2029/30 (instead of having to comply). If they need a longer exemption, the council can apply again through the standard process when preparing its 2030-2040 long-term plan.

    15.2. The second exemption is for the most financially at-risk councils to mitigate the risk that a rates cap entrenches or worsens financial sustainability issues for a council. The regulator would identify any councils in this position, using statutory considerations relating to financial performance and management. These exemptions could be in place for multiple years if necessary. Under the exemption, the council must have regard to the target range when setting rates for the duration of the exemption (instead of having to comply).

16. I do not anticipate that there will be many exemptions for financial risk (paragraph 15.2), if any. Councils are already taking steps to transition to the rates cap coming into effect, in most cases moving towards the target range with lower increases. A handful of councils who have relied on debt to fund their operating costs are moving towards a more sustainable funding model. I expect these councils to mostly transition by 1 July 2029. This category of exemption is intended as a backstop measure, ensuring that these councils have fully transitioned by 1 July 2030, to manage sector wide risks to financial stability, and the related credit ratings and borrowing costs.

Rates capping and reorganisations

17. If a council, or group of councils, is involved in a significant reorganisation, such as an amalgamation, the Bill provides a process for the council or councils to "reset" their rates so that the target range limits can apply in the future. During the reset period councils will have some flexibility to set new rates and be required to "have regard to" the target range. The ordinary requirements to comply with the target range will apply to the council's first long-term plan following reorganisation. Clearcut cases of "significant reorganisation" are defined in the Bill, and the regulator will have a role in determining whether other types of reorganisations are significant enough to require a rates reset.

Rates capping regulator functions

18. The Bill provides that the regulator will have the following functions:

    18.1. advise the Minister of Local Government on how to calculate the target range;

    18.2. review any requests from a local authority for an exemption to the rates target range, and:

        i. if the exemption is to support the response to an exceptional circumstance, provide advice to the Minister as required;

        ii. determine exemptions for FY 2029/30, on an invitation-only basis (as outlined in paragraph 15 above); or

        iii. in all other cases, approve or decline the exemption application after determining a council's financial prudence (using mandatory statutory considerations);

    18.3. monitor local authorities' compliance with the rates target range;

    18.4. direct a council to remake a rating decision if the council adopts a long-term plan with forecast rates outside its target range or adopts a rates resolution that is outside its target range;

    18.5. publish a report every three years on general trends, observations, issues and risks in the implementation of the model;

    18.6. provide guidance material for councils to support the process; and

    18.7. support councils to apply the rates cap during a reorganisation process, including determining whether a reorganisation is significant enough to require the council to follow a reset process for applying the rates cap.

19. I have decided that the regulator will be a statutory officer located in the Ministry for Cities, Environment, Regions and Transport (MCERT). The regulator will operate as an operational unit, separate from MCERT's policy function. The Bill specifies that the regulator must not be MCERT's chief executive to further emphasise the independent decision-making role. While other options were considered (as set out in the attached Regulatory Analysis Summary) I consider that this strikes the best balance of functional independence and cost efficiency, and it also aligns with MCERT's role as the central point of contact for local government.

9(2)(f)(iv), 9(2)(g)(i)

[redacted]

9(2)(f)(iv), 9(2)(g)(i) [redacted]

[redacted]

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

[redacted]

Regulatory analysis

22. The following regulatory impact statements (RISs) were considered by the Cabinet Economic Policy Committee on 12 November 2025 [ECO-25-MIN-0189] and 30 March 2026 [CAB-26-MIN-0099.01]:

    22.1. Regulatory impact statement: rates capping; and

    22.2. Regulatory impact statement: rates target range model regulatory design (not yet proactively released).

23. An additional regulatory analysis summary (RAS) on the location of the regulator is attached to this paper as **Appendix D**. The Department of Internal Affairs' regulatory impact analysis quality assurance panel considers that the information and analysis in the RAS meets the quality assurance criteria.[11] The panel considers that the RAS meets the defined criteria. It clearly outlines a range of options and selects the preferred one based on sound analysis.

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

Consistency with principles of responsible regulation

24. The Bill has been assessed against the principles of responsible regulation as set out in section 9 of the Regulatory Standards Act 2025. Two inconsistencies have been identified:

    24.1. section 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; and

    24.2. section 9(m): legislation should be the most effective, efficient, and proportionate response to the issue concerned that is available.

Compliance

25. The Bill complies with:

    25.1. the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993(although I note that at the time of lodgement the Bill is still undergoing vetting by the Ministry of Justice);

    25.2. the principles and guidelines set out in the Privacy Act 2020; and

    25.3. relevant international standards and obligations.

Treaty of Waitangi – related responsibilities

26. Cabinet was previously advised[12] that the introduction of a rates cap may limit councils' financial capacity to meet their statutory and Treaty-related responsibilities; however, the design of the target range is such that these costs are intended to be met within the lower bound of the range. The rates cap does not intend to alter existing approaches to rating Māori land. The same paper also noted the absence of consultation with iwi/hapu or other Māori representative groups and that the process for developing the proposals may be considered in breach of the Treaty principles.

Feedback from the Legislative Design and Advisory Committee

27. Officials have discussed the proposed mechanism for updating the rates target range (via Order in Council) with the Legislation Design and Advisory Committee (LDAC). LDAC has advised that Legislation Guidelines issues arising are:

    27.1. legislation should not delegate a power to make secondary legislation in respect of matters that are more appropriate for an Act;

    27.2. all secondary legislation should be subject to appropriate safeguards; and

    27.3. the law should be clear and accessible.

[12] Paper of 19 March attached to ECO-26-SUB-0038.

28. The Ministry of Justice also considers that the mechanism for setting the target range is not appropriate for secondary legislation.

29. To reduce the concerns about secondary legislation, the draft Bill now provides that the Order in Council to update the target range (every six years) will be a confirmable instrument. It will automatically be revoked at a particular deadline unless it has been confirmed by an Act of Parliament. This will also reduce, but not remove, the risk of judicial review of that decision.

30. I note that the regulator will have responsibilities for providing guidance and support to councils, and advice to the Minister of Local Government, to ensure that the statutory requirements are clearly explained and can be implemented effectively.

Consultation

31. The following groups and individuals were consulted on this paper:

    31.1. Department of Conservation, National Emergency Management Agency, Ministry of Business, Innovation and Employment (Commerce and Consumer Affairs, Tourism and Hospitality, and Kānoa - Regional Economic Development & Investment Unit), Treasury, Ministry for Primary Industries, Ministry for Regulation, Ministry for Culture and Heritage, Te Puni Kōkiri, Ministry of Justice, the Ministry of Social Development, and the Department of the Prime Minister and Cabinet.

    31.2. The Minister of Finance, Government Ministers and caucuses were consulted.

Binding on the Crown

32. Cabinet Office Circular (02) 4: Acts Binding the Crown: Procedures for Cabinet Decisions notes that bills that are amending existing Acts will generally follow the position of the Principal Act on whether the Act is binding on the Crown.

33. The Local Government (Rating) Act 2002 binds the Crown, and it is proposed that this Bill will follow that position in relation to the amendments to that Act.

34. The Local Government Act 2002 does not bind the Crown, except in relation to specific provisions. Therefore, it is proposed that the amendment in the Bill to section 258G of Part 10 of the Local Government Act will bind the Crown and the other amendments to the Local Government Act will not.

Creating new agencies or amending law relating to existing agencies.

35. The Bill does not create new agencies or amend the legislation relating to existing agencies. The Bill will assign a new function to MCERT as the rates capping regulator.

Allocation of decision-making powers

36. 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. There is no change to the existing oversight role of the courts.

Associated regulations

37. Regulations will not be needed to bring the Bill into operation.

Other instruments

38. The Bill provides for the target range for the rates cap to be prescribed by the Governor General by Order in Council, made on the recommendation of the Minister of Local Government. This is necessary in order that the target range can be periodically updated to reflect changes in costs for councils.

39. The Bill empowers the Governor-General to make regulations on the recommendation of the Minister, specifying:

    39.1. matters that must be considered by the regulator when making decision on particular exemptions (including standards, measures, and thresholds that must be used when determining whether a local authority has demonstrated prudent financial management); and

    39.2. information that must be supplied to the regulator.

40. This regulation-making power is intended to provide for greater transparency, consistency and certainty in these decision-making processes over time as they are implemented.

41. The explanatory note to the Bill sets out the reasons for the regulations.

Definition of Minister/department

42. The Bill does not create a new definition, or amend an existing definition, of a Minister or department.

Commencement of legislation

43. The commencement date for the Bill is the day after Royal assent.

Parliamentary stages

44. 9(2)(f)(iv)

45. I propose that the Bill:

    45.1. be introduced by as soon as possible following its approval by Cabinet;

    45.2. has its first reading prior to the dissolution of the House;

    45.3. be referred to the Finance and Expenditure Committee after first reading; and

    45.4. be enacted by early 2027.

Proactive Release

46. I intend to proactively release this paper, subject to any redactions made under the Official Information Act 1982, as soon as practicable after the Bill is introduced. I also intend to make announcements and release other material, including the previous Cabinet paper from March 2026 [CAB-26-MIN-0099.01], to align with the Bill's introduction to the House.

Recommendations

I recommend that the Cabinet Economic Policy Committee:

1. 9(2)(f)(iv) [redacted]

2. **note** that the Bill will propose a range of amendments to the Local Government Act 2002, the Local Government (**Rating**) Act 2002 and the Legislation Act 2019 (Schedule 4), with the primary policy objective of promoting local government fiscal responsibility, and the predictability of costs to ratepayers;

Confirmation of delegated policy decisions

3. **note** that for the purposes of issuing drafting instructions for the Bill, Cabinet authorised me to make decisions on **specific** matters as outlined in [CAB-26-MIN-0099.01];

4. **agree** to amend the **purpose** of the Local Government (Rating) Act 2002 by incorporating the objectives of the rates target range model;

5. **agree** that the first target **range** (which councils must comply with for the 2029/30 financial year) would be set in legislation and would be 2%-4%;

6. **agree** that the Orders in **Council** to periodically update the target range (every six years) will be confirmable instruments;

7. **agree** that when considering costs to local authorities when setting the target range, the Minister of Local **Government** should have regard to any cost index specified by the regulator;

8. **agree** that councils would be required to comply with the target range on average over the first three years of any long-term plan;

9. **agree** that for the remaining seven years of the long-term plan, councils should show a plan to comply with the **target** range in each individual year;

10. **note** that Cabinet has **agreed** that the regulator could approve variations for FY 2029/30 on an invitation only basis from early 2027;

11. **agree** to the bespoke exemption process (summarised in Appendix B – Exemption 3) for councils with major capital **expenditure** underway (or planned) before enactment that would require rate increases above the target range;

12. **agree** to the bespoke exemption process (summarised in Appendix B – Exemption 4) for councils who are financially at-risk so that the rates cap would not entrench or worsen their financial sustainability issues;

13. **agree** that where a council, or group of councils, is involved in a significant reorganisation such as an **amalgamation**, the Bill provides a process for the council or councils to reset their rates so that the target range limits can apply in the future;

14. **agree** that the rates capping regulator will be a statutory officer within the Ministry for Cities, Environment, Regions **and** Transport who is not the chief executive;

15. 9(2)(f)(iv) [redacted]

16. 9(2)(f)(iv) [redacted]

17. **agree** that the amendments to Local Government (Rating) Act 2002 would bind the Crown;

18. **agree** that the amendments in the Bill to Part 10 of the Local Government Act 2002 would bind the Crown and other amendment to the Local Government Act 2002 would not;

Introduction of the Bill

19. **approve** the Local Government (Rates Capping) Amendment Bill for introduction, subject to the final approval of the Government **caucuses** and sufficient support in the House of Representatives;

20. **agree** that the Bill be introduced as soon **as** possible after Cabinet confirmation; and

21. **agree** that the Government will propose that the Bill be referred to the Finance and Expenditure Committee for consideration.

Authorised for lodgement

Hon Simon Watts

Minister of Local Government

Appendix A: Local Government (Rates Capping) Amendment Bill 2026

Appendix B: Rates cap exemptions

	Exemption 1 – exceptional circumstances	Exemption 2 – future financial planning	Exemption 3 – FY 29/30 capital works	Exemption 4 – financial difficulty
Description	Allow increases in rates above the target range for situations that are unpredictable, unforeseen, extreme.	Where financial management is prudent, councils can increase rates above or below the target range provided they also consult with their communities on the proposed increase.	Where councils have significant capital expenditure planned or underway at the time of enactment, they can increase rates above the target range for FY 2029/30 as part of their 2027-2037 long-term plan.	Where councils are financially at risk, increases above the target range are permitted from FY 2029/30.
Purpose	Councils can recover from exceptional circumstances.	Councils who are financially prudent have more flexibility to determine how much rates revenue they collect.	Capital expenditure that is already planned or underway for FY 2029/30 is not cancelled.	Financial issues are not entrenched or made worse by a rates cap.
Who does exemption apply to?	Any councils which have experienced exceptional circumstances in the current or previous long-term plan period.	Councils who are deemed by the regulator to be financially prudent.	Specific councils will be invited by the interim regulator to apply if they meet certain criteria.	Specific councils will be invited by the regulator to apply if they meet certain criteria.
How much can the exemption be?	Depends on what is necessary or desirable to enable the council to respond to or recover from the exceptional circumstances. A new target range will need to be set.	To be determined by the regulator considering mandatory statutory considerations. A new target range will need to be set.	Depends what is needed for the capital works project. No target range, "have regard to".	Depends what is needed for the council to not be financially at-risk. No target range, "have regard to".
How long is the exemption for?	Depends on what is necessary or desirable to enable the council to respond to or recover from the exceptional circumstances.	To be determined by the regulator considering mandatory statutory considerations.	1 year. After which the council can apply for an Exemption 2 exemption.	Depends what is needed for the council to not be financially at-risk. (Assumption is that it will be short duration due to the transition period in 2027/28 and 2028/29)
Who determines the exemption?	Minister of Local Government on advice of the regulator.	Regulator determines.	Regulator identifies councils, invites them, determines applications.	Regulator identifies councils, invites them, determines applications.
Is consultation on the exemption required?	No.	Yes, as part of regular long-term plan consultation.	Yes, as part of 2027-2037 long-term plan consultation.	Yes, as part of 2029/30 annual plan consultation if council determines that it is necessary.
When can exemptions be applied for?	As needed.	Every three years from 2030 long-term plan. Application must lodged 11 months before an LTP is due to be adopted (e.g. 31 July 2029 for 2030 long-term plan). Is not available for FY 2029/30.	January-March 2027 (depending on when legislation is enacted).	After invitation from the regulator (expected to be during FY 2028/29).
Timeframe for making decision	60 calendar days for Minister to determine an application.	Regulator must determine application within 60 calendar days so councils can consult as part of long-term plan.	Application must be determined no later than 29 June 2027.	Application must be determined by 29 June 2029.

Appendix C: Summary of Departmental Feedback

Department	Summary
Ministry of Business Innovation and Employment	*Kānoa – Regional Economic Development & Investment Unit* Concerned that rates capping could reduce council investment in infrastructure, economic development, tourism, resilience, and co-funded Crown projects. Noted that while exemptions provide an important safeguard, worthwhile regional projects may still become more difficult to fund. *Commerce and Consumer Affairs* Suggested minor edits to the Regulator Analysis Summary. *Tourism and Hospitality* Suggested that the Cabinet paper and associated guidance from the proposed regulator should provide a clear pathway for tourism and economic development investment under the proposed rates-capping framework.
Te Puni Kōkiri	Concerned that rates capping may have disproportionate downstream impacts on Māori by reducing councils' capacity to support Māori participation, engagement, and Treaty-related responsibilities. Noted the lack of engagement with Māori during policy development and associated Treaty risks, and recommended targeted engagement, monitoring of impacts, and consideration of Treaty-related costs in future setting of the target range.
Treasury	Generally supportive of the proposal but concerned that a long-term funding source for the permanent regulator has not been identified. Recommended greater clarity on the regulator's costs, funding arrangements, legal powers, independence, and management of risks arising from limited consultation and evidence gaps.
Ministry of Social Development	Reiterated concerns that rates capping may constrain councils' ability to fund community services and programmes, including some social housing and homelessness-related services. Noted that there may be benefits for some Accommodation Supplement recipients if the policy results in lower rates increases.
Ministry for Primary Industries	Noted that the lack of consultation with Māori raises Treaty-related concerns and may create scrutiny regarding the Government's commitment to upholding Treaty settlements.
Ministry of Justice	Reiterated concerns that the proposal represents a significant constitutional shift by transferring rating-setting powers from elected local authorities to a central regulator. Suggested the target range be set in primary legislation, sought greater clarity on the relationship between the regulator and the courts, noted potential for increased judicial review and litigation, and raised concerns about limited public and Māori consultation.

Appendix D: Regulatory Analysis Summary: Rates Capping Regulator

Appendix E: Consistency Accountability Statement

Appendix F: Summary of Underpinning Analysis

Appendix G: Statement of Reasons

ECO-26-MIN-0161
Revised

Cabinet Economic Policy Committee

Minute of Decision

Local Government (Rates Capping) Amendment Bill: Approval for Introduction

Portfolio Local Government

On 19 August 2026, the Cabinet Economic Policy Committee:

Background

1 9(2)(f)(iv) [redacted]

2 **noted** that the Bill will propose a range of amendments to the Local Government Act 2002, the Local Government (Rating) Act 2002, and the Legislation Act 2019 (Schedule 4), with the primary policy objective of promoting local government fiscal responsibility, and the predictability of costs to ratepayers;

Confirmation of delegated policy decisions

3 **noted** that in March 2026, Cabinet agreed to the detailed policy design for the target range model for rates capping, and authorised the Minister of Local Government to make decisions on subsequent matters that align with the overall policy intent [CAB-26-MIN-0099.01];

4 **agreed** to amend the purpose of the Local Government (Rating) Act 2002 by incorporating the objectives of the rates target range model;

5 **agreed** that the first target range (which councils must comply with for FY2029/30) will be set in legislation and will be 2 – 4 percent;

6 **agreed** that the Orders in Council to periodically update the target range (every six years) will be confirmable instruments;

7 **agreed** that, when considering costs to local authorities when setting the target range, the Minister of Local Government should have regard to any cost index specified by the regulator;

8 **agreed** that councils be required to comply with the target range on average over the first three years of any long-term plan;

9 **agreed** that for the remaining seven years of the long-term plan, councils should show a plan to comply with the target range in each individual year;

10 **noted** that in March 2026, Cabinet agreed that the interim regulator will be able to approve variations for FY2029/30, on an invitation only basis, from early 2027 [CAB-26-MIN-0099.01];

11 **agreed** to the bespoke exemption process for councils with major capital expenditure underway (or planned) before enactment that would require rate increases above the target range (summarised in Exemption 3 in Appendix B of the paper under ECO-26-SUB-0161);

12 **agreed** to the bespoke exemption process for councils who are financially at-risk so that the rates cap would not entrench or worsen their financial sustainability issues (summarised in Exemption 4 in Appendix B of the paper under ECO-26-SUB-0161);

13 **agreed** that where a council, or group of councils, is involved in a significant reorganisation, such as an amalgamation, the Bill will provide a process for the council or councils to reset their rates so that the target range limits can apply in the future;

14 **agreed** that the rates capping regulator will be a statutory officer within the Ministry for Cities, Environment, Regions and Transport who is not the chief executive;

15 [redacted] 9(2)(f)(iv) [redacted]

16 9(2)(f)(iv) [redacted]

17 **agreed** that the amendments to the Local Government (Rating) Act 2002 will bind the Crown;

18 **agreed** that the amendments in the Bill to Part 10 of the Local Government Act 2002 will bind the Crown, and that other amendments to the Local Government Act 2002 will not;

Introduction of the Bill

19 **approved** the Local Government (Rates Capping) Amendment Bill [PCO 28515/11.0] for introduction;

20 **agreed** that the Bill be introduced as soon as possible;

21 **agreed** that the Government propose that the Bill be referred to the Finance and Expenditure Committee for consideration.

Rachel Clarke
Committee Secretary

Present: (see over)

Present:
Hon David Seymour
Rt Hon Winston Peters
Hon Nicola Willis (Chair)
Hon Chris Bishop
Hon Brooke van Velden
Hon Shane Jones
Hon Paul Goldsmith
Hon Louise Upston
Hon Todd McClay
Hon Tama Potaka
Hon Simon Watts
Hon Casey Costello
Hon Nicola Grigg
Hon Andrew Hoggard
Hon Mark Patterson
Hon James Meager
Hon Scott Simpson
Hon Cameron Brewer
Simon Court MP

Officials present from:
Office of the Prime Minister
Office of Hon Simon Watts
Officials Committee for ECO