

Rates targeting consultation

Local Government New Zealand

Richard Ward, General Manager Local Government Policy, Partnerships and Operations
Rowan Burns, Policy Manager, Local Government Policy, Partnerships and Operations

Local Government, Department of Internal Affairs

December 2025

Purpose of today's session

Today's session is targeted at informing you about what Cabinet has decided, what it is consulting on, and providing information to assist your submission.

What we're planning to discuss:

- The decisions that Cabinet has made to this point, and how those decisions were informed.
- The rates target model and the underlying formula for how the upper and lower bounds of the band might be set.
- How the rates target model is intended to operate.
- Variations to the band and the two situations in which variations might be considered.
- Further regulatory design still to be developed.
- The timeline for transition from 2026 to 2029.

Rate targeting policy

In response to recent significant and sharp rates increases, Cabinet has agreed to implement a rates target model in New Zealand to constrain councils' ability to raise rates.

Cabinet has agreed:

- To a target range within which councils can raise rates.
- The minimum of the band should allow for maintenance of services and assets. The maximum should align with economic growth.
- The range will be anchored in long-run economic indicators, such as inflation at the lower end and nominal GDP at the higher end. Preliminary analysis suggests a rates target range of 2-4% per capita per year.
- Applies to all sources of rates (excluding water charges and water targeted rates, development contributions, fees-funded council services). Under the rates cap councils will have discretion to spend rates funding as they currently do.
- Variations to the target range will be allowed in certain circumstances.
- There will be regulatory oversight, initially from the Department of Internal Affairs.
- There will be a limited transition period between 2026 and 2029.

Variations

The rates target model includes two types of variations when councils may need to raise higher rates revenue than what the target range allows.

Situation 1

- Only applies to the types of circumstances that are unpredictable, unforeseen, or extreme, at the discretion of the Minister.
- Circumstances that have not involved planned spending.
- The aim is to enable a fast and reactive response to emergency situations.
- Variations would be allowed without councils needing to justify variations.
- Councils will need to show how they intend to return to the target over an agreed timeframe.

Situation 2

- Where councils need to raise revenue for particular projects outside extreme circumstances.
- Expected to be large-scale infrastructure projects, for example.
- If proposed rises are significant and sustained, regulator would need to give approval before LTP consultation. Councils would need to consult on the variation as part of their LTP process.
- Councils would need to justify variations and explain how they intend to return to the target.
- To justify, councils will need to show financial management principles have been met under the Local Government Act 2002.

Please note that the policy detail regarding variations is still being developed.

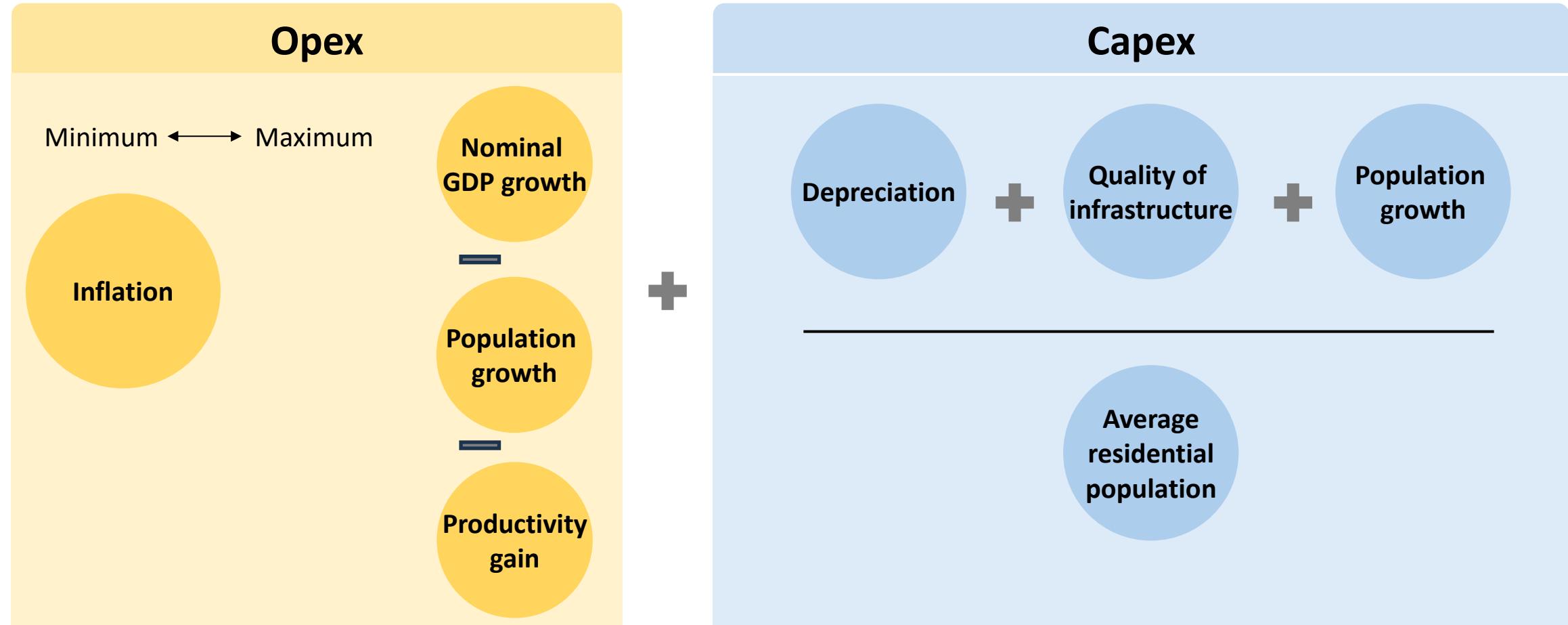
Policy and implementation timeline

Timeline for Rates Target policy development and implementation



Proposed formula

The proposed formula is based on a per capita, price basis for a fixed basket of council services



Consultation questions

1. Do you agree with the proposed economic indicators to be included in a formula for setting a rates target?
2. If not, what economic indicators do you suggest be included and why?
3. Does setting the minimum of the target in line with inflation ensure that councils can maintain service standards? If not, why not?
4. Does the maximum of the target account for council spending on core services?
5. What council spending will not be able to take place under this target range? Why?
6. Are changes to the target needed to account for variations between regions and councils? What changes do you propose and why?

Thank you