

UNCLASSIFIED

Hon Simon Watts, Minister of Local Government

Proactive release of Cabinet materials related to rates capping

22 December 2025

The following documents have been proactively released:

ECO-25-MIN-0189: Cabinet Economic Policy Committee minute

Cabinet paper: A Rates Target for New Zealand

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Where information has been withheld for other reasons consistent with advice, it has been annotated with an asterisk. This information may in some cases be accessible under the Official Information Act 1982.

Key to Redaction Codes:

- ***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)(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.***
- ***Out of scope***

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Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

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 rates⁶) 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

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)**

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 legislation¹²). 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)

40. 9(2)(f)(iv)

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:

IN CONFIDENCE

- 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

22. Out of Scope

23. Out of Scope

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:

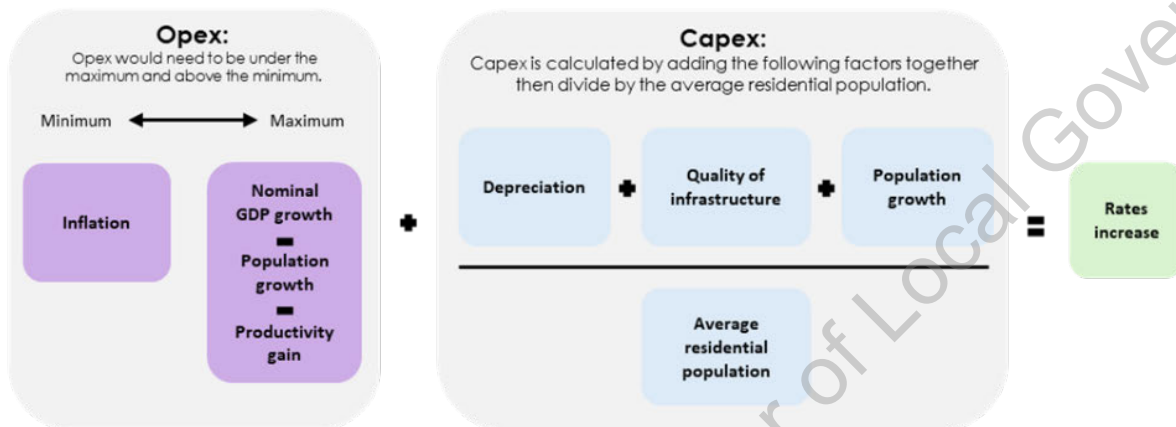


Figure 1: Proposed rates target formula

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
<p>2027-2037 LTPs set from 1 July.</p> <p>Councils required to consider the rates band in setting their 2027-2037 LTPs.</p> <p>Councils required to report metrics relevant to rates increases.</p> <p>DIA to issue guidance to councils on adjusting to the rates band.</p> <p>DIA to monitor rates increases, seek information from councils when the increases are significantly above the band.</p>	<p>Regulator set up from 1 July 2028.</p> <p>Limited regulatory powers available initially. Regulator to:</p> <ul style="list-style-type: none"> • 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. <p>Additional regulatory tools may be added to the regulator, such as assisting councils and suggesting changes.</p>	<p>Full rates band in effect for Year 3 of councils' 2027 LTPs.</p> <p>Councils required to operate within the rates band.</p> <p>For proposed significant and sustained increases beyond the band, councils will need to justify the variation. Process for variations to be outlined in legislation.</p> <p>Full regulatory regime in effect, including:</p> <ul style="list-style-type: none"> • Directing change • Intervention in specific circumstances. 	<p>Full rates band in effect for 2030-2040 LTPs.</p>