



MIN072

Dear Mayors,

I am writing to update you on Cabinet's recent decisions regarding the introduction of a rates target model as part of the Government's local government system improvements programme.

Cabinet has agreed that from 1 July 2029 councils will operate within a target range of rates increases to help keep rates affordable for households while ensuring councils can maintain essential services and invest in infrastructure.

Key Decisions

- The range will apply to all sources of rates (general rates, targeted rates, uniform annual charges), but excludes water charges and other non-rates revenue.
- The range will apply to the price component of rates, not volume 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. An additional growth component will be added for some councils.
- Preliminary analysis suggests a rates target range of 2-4% per capita per year, although this is subject to consultation
 - The 2% minimum aligns with the Reserve Bank's midpoint inflation target and is intended to reflect the assessed minimum necessary revenue needed for councils to maintain existing services and assets;
 - The 4% maximum aligns with long-run nominal GDP growth per capita, and is intended to allow for sustainable services and infrastructure expansion.
- Cabinet has agreed to undertake targeted consultation on how to set the target range from December 2025 to February 2026.
- There will be a transition period from 2026 to 2029. During this time, councils will be required to consider the rates target when setting rates, but it will not be mandatory to operate within the range. The Department of Internal Affairs will issue guidance and undertake monitoring of councils during this time.
- From 1 July 2029, the model will allow for variations in extreme circumstances and a clear process for councils to apply for other temporary adjustments.

- Examples of extreme circumstances are responses to natural hazards, a global economic crisis, or other significant events. In these cases, councils will need to show how they will return to the band over time.
- Where councils need to raise revenue to pay for things outside of extreme circumstances, they will be able to do so through a variation process, and they would need to apply to a regulator for approval. Councils would need to provide justification and explain how they intend to return to the band over time.
- Further work is required on detailed design, including regulatory oversight. Cabinet will make additional decisions in early 2026, and legislation will be introduced before the general election.

Implications for Councils

Councils will need to set their 2027 Long-Term Plans (LTPs) to ensure that year three (2029) and beyond is within the target range. Guidance will be provided during the transition period, and the Department of Internal Affairs will monitor implementation.

Consultation Process

The Department of Internal Affairs will undertake targeted consultation between December 2025 and February 2026.

The Department will seek feedback on:

- The proposed formula and economic indicators for setting the target range.
- Whether the preliminary range of 2–4% per capita per year is appropriate.

How to provide feedback:

- Consultation will be undertaken with targeted stakeholders shortly. This includes Local Government New Zealand.

Next Steps

Should you have any questions, please consult with your Partnership Director, or email ratescapping@dia.govt.nz.

DIA Partnership Director contact details:

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This work sits alongside the Government's broader local government reform programme, including Local Water Done Well, City and Regional Deals, and proposals to simplify local government. Together, these initiatives aim to refocus councils on core business and deliver better outcomes for communities.

Thank you for your continued leadership and commitment to serving your communities.

Yours sincerely,



Hon Simon Watts
Minister of Local Government