



Rates target model explainer

Introduction

The Government has announced the introduction of a rates target model. This would introduce a mandatory range within which councils must set rates increases.

Key elements of the proposal

What the cap will apply to

The cap will apply to all rates (general rates, including the uniform annual charge, as well as targeted rates). It will exclude water charges and other non-rates revenue like fees and charges.

The range will be expressed in a per person or per rating unit increase.

The Government has decided that the range will apply to the price component of rates, not volume growth. Simply put, this means that any increased rates revenue from new rateable units would be extra to what is enabled by the rates target model.

The cap would still give councils discretion over spending choices. However, councils would need to comply with the new core services requirements and narrower purpose statement set out in the Local Government (System Improvements) Amendment Bill once this bill becomes law.

How and when the cap will be set

The Government is proposing to anchor the range for operating expenditure on two sets of long-run economic indicators:

- The minimum would be based on the midpoint target band of the Reserve Bank policy target. This is 2% and is set in the Monetary Policy Remit. The Government argues that this would enable councils' service levels to be maintained. However, local government's rate of inflation has historically been higher than this target.
- The maximum would be based on Gross Domestic Product (a measure of national activity/growth) less the contribution to this from population growth and less productivity gain. Council rates have historically sat at around 2% of nominal GDP.

This means that under this proposal, the interim target range for rates from 1 January 2027 would be between 2% and 4%.

The consultation document suggests the range would have an additional growth component added for some councils. It is not clear which councils would be eligible. Nor is the proposed method for calculating this additional component clear.

Setting of the range

The range would be reviewed every three-year period, based on the agreed formula.

Variations to the rates range

Extreme circumstances would allow exceptions to the target range. For example, global economic crises or recovery from natural disasters.

Outside extreme circumstances, councils would be able to apply to the regulator for a variation to the rates range. This process would require councils to justify this.

In both instances, councils would be required to detail how they would return to the band over time.

Regulatory oversight

There will be a new or existing regulator to review the cap, provide oversight over compliance and manage the variations process. There will be further decisions next year on this.

Timeframes

It is expected that after final policy decisions early next year, that legislation will be introduced shortly after. It is unclear if the legislation will be passed this electoral term.

The policy is proposed to apply from 1 July 2029, so would need to be implemented by the first annual plan after the 2028 local elections.

There would be a transition period from 1 January 2027. The Minister has signalled existing Local Government Act 2002 Part 10 powers could be used to intervene if councils go outside the proposed range.

