



# Regulatory Impact Statement: Regulation of Development levies

<b>Decision sought</b>	<i>Two decisions are being sought, they are the:</i> <ul style="list-style-type: none"><li><i>• approach to regulatory oversight for the new development levies system; and</i></li><li><i>• in principle, to the Commerce Commission (Commission) becoming the regulator for development levies – with further work taking place to develop the details of this approach.</i></li></ul>
<b>Agency responsible</b>	<i>The Department of Internal Affairs</i>
<b>Proposing Ministers</b>	<i>Hon. Chris Bishop</i>
<b>Date finalised</b>	<i>5 November 2025</i>

## Description of the Minister's regulatory proposal

*The Minister proposes an approach to regulatory oversight for the new development levies system. The Minister also seeks to establish the Commerce Commission (the Commission) as an independent regulator for the use and application of development levies by councils.*

*This is Part 1 of a two-part RIS process intended to support in principle decisions to establish the Commerce Commission as a regulator for development levies. Part 2 will provide a fuller analysis of the options. It will also fulfil the implementation and evaluation requirements.*

*Officials will prepare an updated RIS following decisions on the details of the regulatory design.*

## Summary: Problem definition and options

### Context

#### *New Zealand's housing crisis*

*New Zealand's housing market is among the least affordable in the developed world, largely due to insufficient housing supply. To encourage provision of more housing, cities will need to continue to grow, and councils will need to provide infrastructure (such as roads, drinking water, wastewater, stormwater, and community facilities) to enable this growth.*

*Councils currently use development contributions, under the Local Government Act 2002, to recover from developers a fair proportion of the cost of capital expenditure for infrastructure required to service new growth over the long term (including the significant financing costs of holding debt incurred in advance of recovery). The existing tools available to recover growth costs from development are no longer fit for purpose, and there is a persistent gap between what councils spend to provide growth capacity and what they can recover.*

The gap between spending and cost recovery impacts on ratepayers, as councils turn to rating income to repay growth costs they have financed. In turn, this disincentivises councils from investing to support housing supply.

Ministers have made decisions under the Going for Housing Growth (GfHG) programme designed to address the issue. The GfHG programme has three pillars focussing on planning reform (Pillar 1), improving infrastructure funding and financing (Pillar 2) and providing incentives for communities and councils to support growth (Pillar 3). In December 2024, Cabinet decided to replace development contributions with more flexible development levies (Pillar 2). Legislation to introduce this change is expected to be introduced to Parliament in 2026 with development levies able to be used from mid-2027.

In addition to moving to development levies, there is other work happening with implications for local government funding and financing and growth planning. This includes the development of a rates capping policy (which will also require regulation and may influence to use of development levies), changes to the resource management system, and water reform. As all of these work programmes are currently underway, officials will need to work closely with other agencies to understand the implications of these interconnections going forward to avoid perverse incentives and overregulation.

#### *Ministerial decisions about development levies*

In December 2024, Cabinet decided to replace development contributions with development levies. Cabinet delegated responsibility for detailed design decisions to the Minister of Local Government and the Minister of Housing [ECO-24-MIN-0283].

Delegated Ministers decided in March 2025 that regulation is needed to support the outcomes of the GfHG programme, and that the approach to regulation would be one of increasing transparency and certainty [LG20256347]. Ministers also agreed to an interim regulatory regime for development levies, consisting of disclosures, some standardised methodology, and Crown step-in powers.

Ministers noted that further work would take place on developing a wider regulatory framework which takes into account the interconnectedness of different aspects of housing and development and wider local government work. This policy work was underway with initial advice on this wider regulatory approach provided in June 2025 [LG20258053] including the sequencing of regulatory oversight mechanisms and where regulatory responsibilities would sit.

In early October 2025, this policy direction changed, with the Ministers of Housing, Local Government and Consumer Affairs agreeing that the Commerce Commission should be established as the regulator for development levies and a new regulatory regime developed [LG20259513].

#### *Change from development contributions to development levies*

Under the proposed approach, development levies will be set at a level that enables councils to provide the infrastructure necessary to service growth responsively. Development levies will be used across a larger area (a levy zone), and they will be paid into a levy pool. The funds in the pool will be used to meet the growth costs of providing the infrastructure necessary to service growth. Councils will be able to spend levy funds collected in one part of a levy zone, for the

benefit of another part of the levy zone, as they sequence the provision of additional capacity to respond to growth.

#### *An independent regulator to start on Day 1*

The flexibility in the proposed development levy system means there is concern that there will be fewer safeguards against over-recovery and oversight into what the funds are spent on. To alleviate this concern, regulation of the development levy system is proposed.

Regulatory oversight of development levies activities should increase certainty and trust for councils and developers in the context of increased flexibility and existing issues. The policy work around the details of the regulatory regime are still to be worked through, with decisions to be made by Cabinet in April 2026.

Consultation with stakeholders has indicated that an independent economic regulator would support the increased certainty and trust desired by developers. The proposed regulator for the new development levy system, as directed by Ministers, is the Commerce Commission (the Commission). This is based on recent changes to the economic regulation of water services, which the Commission has taken on. However, regulating development levies is likely to be more complex and therefore more costly than water due to the higher number of regulated entities and range of levy categories proposed.

Earlier work was done around setting up an interim regulatory regime, consisting of disclosures, some standardised methodology, and Crown step-in powers. However, this regime was designed to apply on an interim basis, pending development and consideration of appropriate longer-term arrangements. Ministers have decided to progress with the Commission being the regulator on Day 1 - this option will be analysed in this document.

#### *Cost estimates*

Indicative costs for implementing and running a regulatory system for development levies is in the range of 9(2)(g)(i) over a five-year period for the Commission. The costs on other affected parties have not yet been estimated and will be an additional cost.

### **What is the policy problem?**

#### *Matter one – setting up a regulatory regime for the development levy system*

Development levies are designed to increase flexibility to enable better investment by councils in infrastructure to enable growth, however, this means developers and the public would have less certainty and transparency in how development levies are set, applied, and used. The increased flexibility inherent in development levies raises more uncertainty around growth-related decisions and the use of funds – requiring regulatory oversight arrangements to help mitigate associated risks and concerns.

The details of the new regulatory regime have not been developed yet. The decision this RIS is exploring is whether to stand up an independent regulator and whether the Commission should be the regulator. Further policy work on the detail will be completed for Cabinet to agree to in April 2026, which will be supported by a second RIS that will provide more evidence on the required key features of a successful regulatory regime.

In principle, regulation needs to address three main areas of concern:

- a lack of transparency in how growth decisions are made, how funds are spent, and how councils are setting and managing their development levies;

- scope and compliance problems (for example, where there are concerns councils are not complying with regulatory requirements);
- how to resolve disputes between developers and councils, and who should do this.

Applying this to the development levies system, regulation could include activities that provide for one or all of the following:

- assurance that development levy policies are in accordance with the law and/or financial assumptions are appropriate;
- compliance with the law;
- a complaints/disputes mechanism in addition to or replacing the existing mechanism that sits with development contribution commissioners.

The flexibility in the new development levies system, with the funds collected being able to be spent anywhere in the levy zone, mean regulation of the system is required to ensure alignment with the Legislative Design and Advisory Committee ([LDAC](#)) [have guidelines](#) about lawful levy setting:

*“There must be a proper relation between the levy amount charged and the particular objective or function concerned. The amount of a levy imposed on a particular group should be commensurate with the degree of connection between the group and the objective or function concerned”. (LDAC 17.5)*

#### *Matter two – who will be the regulator*

Within the new regulatory regime, there is a question about regulatory roles and responsibilities, and in particular, who is the regulator for development levies.

In early October 2025, Ministers of Housing, Local Government and Consumer Affairs agreed that the Commerce Commission should be established as the regulator for development levies [LG20259513].

Some of the elements of a successful regulator include:

- appropriate governance and organisation structure, with adequate resourcing;
- staff with the skills and experience needed to support the regulator; and
- range of legislative and non-legislative tools to educate, incentivise, and ensure compliance.

Understanding these elements will help analysis around who the best regulator might be, and whether that is the Commission.

#### **What is the policy objective?**

The proposed regulatory regime for the new development levies policy seeks to increase trust and certainty for councils, communities, and developers through providing transparency and certainty on how development levies are set, applied, and used.

A transparent regulatory regime would allow developers and the public to understand how councils have designed their development levies policy, who gets charged what, and how the funds are spent.

A regulatory regime that provides certainty would enable developers and the public to know what they would be charged early on in the development process and be able to find information about what the funds are spent on.

Improving transparency and assurance – through information disclosure – would be a key function that underpins any regulatory regime for development levies through information disclosure and monitoring. This would enable ‘sunlight’ to be shed on the regulated parties’ decisions.

When exploring who will take on new regulatory responsibilities, it is important to consider utilising existing regulators relevant to local government – such as the Commission – to maximise efficiencies and synergies and help ensure coherence across the system. This aligns with the direction previously agreed by Cabinet – that an integrated approach would be taken to the regulatory oversight of development levies and local authority rates [ECO-24-MIN-0283].

Further regulatory design work will need to consider, and be informed by, the broader context in which local government is regulated, and links with other reforms – including the new regulatory regime for water services established through Local Water Done Well, the regulatory approach to rates capping, and potential future local government regulation.

This is the first of a two-part RIS process supporting a new regulatory regime for development levies and an in-principle decision to appoint the Commission as the regulator for this regime. This is subject to further analysis to develop the details needed to give effect to this approach.

The second part of the RIS will follow in 2026 alongside the detailed policy proposals of the specific functions and powers the Commission would need to take on a regulatory role for development levies. For the regulatory regime to be successful it will need to be aligned with the existing local government oversight system, including the Minister of Local Government’s powers to act in relation to local government. To maintain the Commission’s independence, there will need to be clearly defined roles and responsibilities.

#### **What policy options have been considered, including any alternatives to regulation?**

##### *Matter one – setting up a regulatory regime for the development levy system*

The options analysed for the first matter – the regulatory regime for the development levies - to be addressed are:

- status quo – the current regulatory requirements in development contributions regime;
- option one – the interim regulatory regime; or
- option two – a new regulatory regime.

The status quo is the current regulatory arrangement in the development contributions regime, which will cease to exist when it is replaced by the new development levies regime.

Development contributions do operate within a regulatory regime set out in the Local Government Act 2002 (Part 8 Regulatory, enforcement, and coercive powers of local authorities and Part 10 Powers of Minister to act in relation to local authorities). Since the development contributions regime will cease to exist this option is not viable.

Initially an interim regulatory regime (option one) for development levies, consisting of disclosures, some standardised methodology, and Crown step-in powers was explored. Existing Ministerial powers under Part 10 of the Local Government Act 2002 would continue to apply, as would the ability to judicially review councils’ decisions. The interim regime would have been an approach to support councils and developers as they transition to the new development levies regime.

The Department’s preferred option was option one, an interim regulatory regime. This option was developed in response to conversations with the development sector and local



government. In October 2025, Ministers agreed to establishing a regulator for development levies from 'Day 1'. This halted further work on the interim regime option and any other alternatives.

The Cabinet paper asks Cabinet to agree to the new regulatory regime (option two). It is the Minister's preferred option. The details of this option have yet to be worked through and analysed. The Cabinet paper has a report back date of April 2026, the detail of the new regulatory regime will be set out there.

#### *Matter two – who will be the regulator*

For the second matter – who the regulator will be – the options analysed are:

- status quo – a dispersed model where the Department of Internal Affairs is the steward of the regulatory system, an objection process heard by a Development Commissioner who has the power to make binding recommendations, the Courts with a Judicial review function and the Minister of Local Government with some intervention powers under the Local government Act 2002; or
- option one – independent regulator – the Commission.

The status quo option, continuing with a mixed and dispersed model has not been considered a viable option. This is due to the feedback from consultation that an independent regulator was desired and the Minister's decision that this would be the Commission. It has not been analysed in full.

In October 2025, Ministers decided to pursue investigations for an independent regulator being established for the development levies regime and for this regulator to be the Commission, so option one. As a result of this ministerial decision alternative options have not been fully analysed.

The Cabinet paper asks Cabinet to agree, in principle, to the Commission becoming the regulator for development levies – subject to further work to develop the details of this approach.

The Commission's role here could include, for example:

- specifying the information to be disclosed;
- analysing and publishing that information in a manner that makes it possible to provide assurance that the development levies are consistent with service parameters;
- allowing for information and disclosure to be compared across jurisdictions and with past performance on each key metric and where improvements are expected in future.

The skills required for development levy work are broadly consistent with the Commission's role in other sectors, though the Commission will need to grow local government oversight capability and expertise to deliver the regulation.

#### **What external consultation has been undertaken?**

Engagement with councils, developers, sector bodies and central agencies was undertaken about the change from the development contributions to development levies. Part of these discussions included regulation of the new scheme. Developers emphasised the importance of an independent regulator. The Property Council of New Zealand has also written to the Minister of Housing requesting the stand up of an independent regulator at the same time as the establishment of development levies.

Officials have done some initial consultation with councils and the Property Council of New Zealand around the problems with the regulation of development contributions and the proposed interim arrangements for development levies.

No consultation has been done with councils, individual developers (the Property Council of New Zealand has been consulted), ratepayers, or communities about an economic regulator for development levies. There has not yet been specific consultation with any affected parties on the Commerce Commission taking a regulatory role.

The second part of the RIS that will follow in 2026, alongside the Cabinet paper, will set out the detailed policy proposals of the specific functions and powers of the regulator. As the details of the regulatory regime are worked through further consultation will be undertaken with the Commission, Ministry of Housing and Urban Development (MHUD), Ministry of Business, Innovation and Employment (MBIE), and Treasury. This would include the functions of the regulator, what expansion of role the Commission would need to become the regulator, how this regime would interact with the existing local government oversight system to maintain the Commission's independence, including the Minister of Local Government's powers to act in relation to local government, and how this would fit alongside other reforms that affect local government.

There will be no consultation with councils, developers, ratepayers, or communities about an economic regulator for development levies at this stage. There will be a select committee process for the legislative vehicle that is used, where these parties will be able to comment on and influence the bill.

**Is the preferred option in the Cabinet paper the same as preferred option in the RIS?**

No. Regarding matter one, the Cabinet paper seeks agreement that the regulatory regime be set in place by 'Day 1'. Officials preferred option is that an interim regime is set up while councils and developers get used to the new system.

Regarding matter two, the Cabinet paper asks Cabinet to agree, in principle, to the Commission becoming the regulator for development levies – subject to further work to develop the details of this approach. Officials preferred option is that the decision on who the regulator is for development levies is made as part of further work that was planned on options for developing the wider regulatory system for local government, including development levies, rates capping, and the provision of water services. This further work would have included the sequencing of regulatory oversight mechanisms and where regulatory responsibilities would sit.

## **Summary: Minister's preferred option in the Cabinet paper**

### **Costs**

#### **Description of costs and where they fall**

All of the cost estimates are limited because the details of the regulatory regime have not been developed and decided.

*Costs to the Commission*

To establish the Commission as the regulator for development levies, the Commission has made an initial estimate that the total cost would be between 9(2)(g)(i) over a five-year period. The first three years would be more expensive as functions are established. 9(2)(g)(i)

#### *Costs to councils*

This option is likely to increase costs for councils as it will require the use of new mechanisms and reporting tools that have not been applied in this context.

There may also be a need to address issues that arise relating to compliance and enforcement and dispute resolution (negotiation/arbitration). This is likely to result in increased costs for councils.

#### *Costs to Department of Internal Affairs*

Councils will likely need support to come up to speed with the new development levy regime and the regulatory requirements they face around it, this will mean that there is more work for the operational policy team to provide that support and extra resources would likely need to be sourced.

#### *Costs to developers*

Developers will have to learn a new system and may decide to take legal action to dispute any disclosures of the development levy outputs or levy amounts, which would put an added cost on to developers. Note that further work needs to be done on matters that developers and others will be able to dispute.

#### *Costs to the ratepayer*

It is expected that this option will reduce the cost to the ratepayer because the development levy system will lead to developments funding more of the costs of infrastructure needed for growth rather than councils having to fund growth through increasing rates.

Officials note that the sequencing of decisions (where Ministers consider where regulatory powers should sit prior to deciding what needs regulating or an approach to regulation) is likely to cause inefficiencies where it intersects with other on-going work and aspects of the regime may have to be reviewed.

No cost estimates have been done for an interim regulatory regime because ministerial decisions were made to halt this work.

Further clarity on this cost will be provided in April 2026, once the detail of the regulatory regime has been developed.

### **Benefits**

#### **Description of benefits and where they fall**

Fully assessing the benefits cannot occur until further work is done on the roles and responsibilities of the regulator.

#### *Benefits to councils*

Councils will be able to levy developments more for the cost of growth than under the development contributions system, and they will have more certainty when it is regulated, therefore they will benefit greatly from this and be able to fund growth far more effectively. A high-level snapshot in the related RIS illustrated the scale of the problem: councils projected



\$19.5 billion in capital expenditure to meet additional demand, compared with only \$8.5 billion in anticipated recovery through existing tools.

Councils are likely to benefit from any educative role the regulator might play, and from having a clear and structured dispute process if one were to be established.

#### *Benefits to developers*

The new development levy system, with a regulatory system, would include standardised methods and fixed reassessment cycles which would mean the developers would be working under a more predictable system. As a result, developers will have more certainty and transparency under this new regime which will enable them to make informed decisions about their developments and the costs they will face from councils.

An important feature of development contributions is that the charge is known at the time a developer applies for the consent required to develop. This enables developers to consider the cost of development contributions when making decisions about where and what kind of development is financially viable.

#### *Benefits to ratepayers*

Ratepayers will cover less of the cost of growth than they do under the current system, potentially leading to lower rates and/or better services as councils need to contribute less to the infrastructure required to enable growth.

#### *Benefits to Department of Internal Affairs and the Commission*

Having information disclosure would a more complete, reliable and comparable data set to be collated on the costs of development and growth information that could be used for further policy development and/or refinement and enable comparison between councils or different regions.

The independence of the Commission is likely to deliver increased benefits, including trust and confidence.

The full extent to which this option will provide for transparency and certainty will depend on the details of what functions the Commission will have as a regulator. This is subject to further work planned to be reported back to Cabinet in 2026 and will be accompanied by a further/updated RIS.

### **Balance of benefits and costs**

#### **Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?**

Establishing the Commission as the regulator for development levies is likely to have benefits that will outweigh the cost over the long-term. The Commerce Commission is already an established, independent economic regulator. Recent legislative changes have expanded its remit into regulating water services, covering similar regulated parties to the bodies that will charge development levies (councils and water organisations). The independence of the Commission is likely to provide for increased trust and transparency in the use and application of development levies.

In the short-term, the costs will outweigh the benefits with the Commerce Commission needing to increase capacity and capability to take on new roles and functions. Analysis had not been

completed on the costs associated with implementing the alternative option of an interim regulatory regime, but it is likely to have been a lower cost model in the short-term.

There may also be additional costs from taking this decision now with the potential for inefficiencies where in the future, the development levies regulatory regime needs to be altered to align with other, related, regulatory frameworks as they are developed.

## Implementation

### **How will the proposal be implemented, who will implement it, and what are the risks?**

The Department will need to do work to support implementation of an oversight body including the legislative change process. The Department will also likely have a role supporting the Commission through the service design and remaining abreast of the Commission's implementation work to ensure that it aligns with the wider reforms.

The Commission will be responsible for implementing the regulatory regime for development levies. The framework is likely to consist of activities that provide:

- assurance that development levies policies are in accordance with the law and/or financial assumptions are appropriate;
- compliance with the law;
- a complaints/disputes mechanism in addition to or replacing the existing mechanism that sits with development contribution commissioners.

Establishing an information disclosure baseline would be the key first step in the regulatory regime for development levies. Further regulatory tools could then be added to this to address issues raised during analysis of the disclosed information, and concerns relating to compliance and enforcement.

The Commerce Commission would require additional funding and resources to take on new functions associated with regulating development levies.

New legislation will be required to establish the regulatory regime and empower the Commerce Commission as the regulator. This legislation will need to be enacted by mid 2027, so the Commerce Commission can start preparing to perform its new regulatory functions, before the new development levies regime is in place and operating in July 2028.

Further implementation details will become clear as detailed policy design is undertaken for Cabinet agreement in 2026.

### **Risks**

There are a number of risks associated with the proposal. These include:

- Increasing costs and regulatory burden for councils.
- Misalignment with other parts of the wider local government regulatory system (e.g. Auditor-General and Environment Court).
- The Commerce Commission's capacity and capability to extend its role into the regulation of development levies while it goes through wider governance reform.
- Depending on what the Commission will be doing to regulate the use and application of development levies, there is a risk that it may be placed in a position to make judgement calls on the growth projections and aspirations for councils, as well as possibly making judgement calls on levels of service. This might look like the Commission intervening in the number of libraries a growth area should have and setting upper limits on stormwater infrastructure.

- This is outside of the experience of the Commission and risks undermining local democracy. It is also likely to result in unintended consequences for communities. Care will have to be taken in the design of the Commissions functions to ensure that the extent to which the Commission is making judgements on council's growth planning is appropriate.

These risks and others will be articulated further through the next stage of detailed policy design.

## Summary: Agency's preferred option

### Costs

#### Description of costs and where they fall

This option would have lower costs as the Department would likely have managed much of the interim regulation, and the regulatory framework would make as much use of existing tools and mechanisms to the extent possible, limiting the costs on councils.

### Benefits

#### Description of benefits and where they fall

Both options in this paper will increase transparency and trust between rate payers, developers, and councils.

This option is lower cost, places a limited burden on councils, and allows for the longer-term decisions of the regulation of development levies to be considered as part of the wider regulatory system as it applies to local government funding and financing. This is intended to manage the changing context in a way which allows for a more streamlined regulatory system and limits the potential for perverse incentives.

### Balance of benefits and costs

#### Does the RIS indicate that the benefits of the Agency's preferred option are likely to outweigh the costs?

The benefits will likely outweigh the costs in the short-term as much of the existing regulatory system will be reused. However, in the longer-term, it is likely the benefits will be more constrained than and not as large as the Ministers preferred option.

### Implementation

#### How will the proposal be implemented, who will implement it, and what are the risks?

The Department would be responsible for implementing this option alongside the other players in the existing system, including the Courts and the Minister. It is in line with other monitoring obligations that the Department already holds and would make use of documents that the Department already reviews. Pending further detailed policy design, it is very likely that the Department would need additional capacity and capability to implement this option.

### Limitations and constraints on analysis

Neither the Agency's preferred option (the status quo) nor the Minister's preferred option are sufficiently developed to enable detailed analysis at this stage.

The features of the development levy regime have not been fully developed. This means that at this stage of the analysis, it is not yet clear that there is a need for an independent oversight



body, and if there is, what the scope of its functions might encompass. This means that it is difficult to assess if the Commerce Commission is the most appropriate body.

More detailed analysis on the need for a regulator, and functions and powers of the regulator, will be included in the second stage RIS once the detailed policy work has been completed.

Where the early stage of policy development most impacts is on any consideration of costs. As development levies will be a new tool, we also do not have any certainty around uptake by councils, and how many levies and levy zones will be created and applied. The greater the number, the greater the complexity and the greater the cost for the regulator.

In addition, for the proposed option of establishing the Commission as the regulator for development levies, decisions are still to be made on the functions and regulatory tools that will be part of the new regime. As such, cost estimates are indicative and based on the Commission's experience standing up economic regulation for water. Which, while comparable, has significant differences to what will be required for the regulation of development levies.

Public consultation has not taken place, so there is limited information on support for this policy and the costs that might be occurred by other affected stakeholders.

Due to the nature of how the policy programme has evolved, and the time constraints we are under, there are some elements of the Minister's preferred option that have not been fully developed or costed and are subject to further work and consultation.

**I am satisfied that, given the available evidence, this RIS represents a reasonable view of the likely costs, benefits and impact of the preferred option.**

**Responsible Manager(s) signature:**

**Richard Ward**  
**General Manager Local Government**  
**Policy, Partnerships and Operations**  
**4 November 2025**



### **Quality Assurance Statement**

**Reviewing [Agency/Agencies]: The**  
**Department of Internal Affairs**

**QA rating:** partially meets

#### **Panel Comment:**

*A Department of Internal Affairs Regulatory Impact Assessment Panel has reviewed the regulatory impact statement (RIS) attached to this Cabinet paper. The Panel has determined that the RIS partially meets the quality assurance criteria. Further work is required on the detailed design of the proposed development levy regime. This is needed to support further analysis - against the objectives and a clear set of criteria - as to whether a regulatory oversight body is needed as part of the regime and whether that body should be the Commerce Commission. In addition, there has been no substantive consultation with affected stakeholders and there is no plan for this to occur.*

*The Panel notes that the RIS that accompanies this Cabinet paper is an initial assessment. There is an opportunity for the further analysis needed to occur and be included second RIS will be provided at the time additional, detailed decisions are sought.*



## Section 1: Diagnosing the policy problem

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### **What is the context behind the policy problem and how is the status quo expected to develop?**

1. This work is to provide a regulatory framework for development levies, a new tool which helps councils recover the costs of growth from developers as part of the wider Going for Housing Growth work programme.
2. Development levies will be replacing the existing development contributions tool.
3. Councils currently use development contributions, under the Local Government Act 2002, to recover from developers a fair proportion of the cost of capital expenditure for infrastructure required to service new growth over the long term (including the significant financing costs of holding debt incurred in advance of recovery).
4. Development levies will be used across a larger area (a levy zone) and they will be paid into a levy pool. The funds in the pool will be used to meet the growth costs of providing the infrastructure necessary to service growth. Councils will be able to spend levy funds collected in one part of a levy zone, for the benefit of another part of the levy zone, as they sequence the provision of additional capacity to respond to growth.

#### *The move to development levies seeks to support housing and business growth*

5. New Zealand's housing market is among the least affordable in the developed world, largely due to insufficient housing supply<sup>1</sup>. Recent planning reforms such as the National Policy Statement on Urban Development (NPS-UD) and Medium Density Residential Standards (MDRS) have significantly increased the supply of zoned land for housing. These changes aim to improve housing supply, choice, and affordability, but they also require corresponding infrastructure to service growth.
6. Councils are responsible for providing core infrastructure (such as transport, water, wastewater, stormwater, and community facilities) to support new housing and businesses development. The Local Government Act 2002 requires councils to consider who benefits from this infrastructure and to align funding sources accordingly. When the benefits primarily accrue to future residents, councils must determine how to recover the costs. One mechanism for recovering costs from future residents is development contributions.
7. Development contributions are a user charge. However, they can only be applied to costs that are directly attributable to a specific development or group of developments, and for works that are included in a development contributions policy ahead of time. This is referred to as a clear causal nexus between the infrastructure assets with growth capacity, and the developments that infrastructure is serving. The causal nexus means development contributions can only adequately recover growth costs where councils have certainty about the location, scale, and pace of development. An important feature of development contributions is that the charge is known at the time a developer applies for the consent required to develop. This enables developers to consider the cost of development contributions when making decisions about where and what kind of development is financially viable.

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<sup>1</sup> Urban land prices – a progress report, Infrastructure Commission, April 2023. New Zealand Productivity Commission. (2019). Local government funding and financing: Final report.

8. The current system was designed for a predictable planning environment, but recent reforms (NPS-UD, MDRS, and 30-year housing growth targets) have made growth patterns harder to forecast. Councils must now enable development across a wider range of locations and respond to private plan changes and fast-track consents. Under these conditions, the causal nexus and timing rules prevent councils from including all necessary projects in their development contributions policies in time to recover costs. A high-level snapshot in the related RIS illustrated the scale of the problem: councils projected \$19.5 billion in capital expenditure to meet additional demand (growth), compared with only \$8.5 billion in anticipated recovery through existing tools. This gap creates systemic fiscal risk and constrains councils' ability to invest in growth infrastructure.
9. With the government making changes through the Going for Housing Growth programme that will increasingly free up land for development and create a much more permissive planning environment (Pillar 1), the fiscal risk and demands on councils will continue to grow.
10. This is likely to lead to the under-recovery of growth costs worsening as planning reforms increase development opportunities, including for water infrastructure where upcoming water service reforms may add further uncertainty. Existing communities will face higher rates, creating opposition to growth, councils will have weaker incentives to invest in infrastructure and developers will continue to face unpredictability and inconsistency in charges.

*We are shifting to development levies*

11. In December 2024, Cabinet decided to replace development contributions with development levies.
12. The levy system is intended to address under-recovery and ratepayer cross-subsidy by aggregating growth costs over time and across areas. It enables councils to invest in infrastructure ahead of demand and recover costs regardless of sequencing.
13. The purpose and design elements of the development levy system agreed by Cabinet set the scope for detailed design decisions. Cabinet delegated responsibility for these detailed design decisions to the Minister of Local Government and the Minister of Housing.
14. Cabinet agreed that development levies be subject to regulatory oversight. Subsequent briefings in March 2025 agreed the regulatory oversight:
  - a. would be integrated with regulatory oversight of local authority rates; and
  - b. in the interim, by information and disclosure powers, and step in powers on behalf of the Crown where levy powers are being used inappropriately.
15. Ministers' positions have since changed, and they have subsequently directed officials to pursue the Commission as an independent regulator operational on day one of the development levy regime being in place.

*Defining the status quo and how it is expected to develop?*

16. The status quo is the current regulatory regime for the development contributions system, which will cease to exist when it is replaced by the new development levies regime. Development contributions do operate within a regulatory regime set out in the Local Government Act 2002 (Part 8 Regulatory, enforcement, and coercive powers of local authorities and Part 10 Powers of Minister to act in relation to local authorities). These powers would be transferred to the development levy system.

17. Provisions for record keeping and dispute resolution for development contributions currently exist and could be transferred to the development levies system. Under s17 of the Public Records Act 2005, councils must create and maintain full and accurate records of their affairs, in accordance with normal, prudent business practice.
18. Under the current regime, Councils must have systems in place that ensure records are kept from when an application for a consent/certificate or authorisation is received. This includes the assessment undertaken to determine whether the development is subject to development contributions. We were proposing that this be adapted to apply to development levies and included as part of the disclosures regime.
19. Councils are currently advised in guidance that the Household Unit Equivalents and revenue for each activity and catchment also need to be recorded in systems to enable a council to properly account for development contribution revenue and associated asset capacity. We also propose formalising this through disclosures. This should include identifying revenue received for each activity and levy zone and the use of that revenue towards assets permitted under the development levy system.
20. There are three existing disputes and objection options for developers under the development contributions regime. These are:
  - a. Reconsiderations (by the Council);
  - b. Objections to an independent arbiter (Development Commissioners); and
  - c. Judicial review;

### **What is the policy problem or opportunity?**

*There is a need for regulation of development levies*

21. The increased flexibility inherent in development levies compared to the current development contributions raises more uncertainty around growth-related decisions and the use of funds – requiring regulatory oversight arrangements to help mitigate associated risks and concerns.
22. There is a need for a new regulatory regime that delivers trust and certainty for councils, communities, and developers on how development levies are set, applied and used.
23. Developers are concerned that there will be fewer safeguards against over-recovery. Additionally, levies are charged across a larger area (a levy zone), with locations where councils have no specific plans for infrastructure investment charged at the same rate as areas where investment is planned (except in cases where specific high-cost infrastructure assets are required and a high-cost area established). Councils will be able to spend levy funds collected in one part of a levy zone, for the benefit of another part of the levy zone, as they sequence the provision of additional capacity to respond to growth.
24. In principle, regulation needs to address three main areas of concern:
  - a. a lack of transparency in how growth decisions are made, how funds are spent, and how councils are setting and managing their development levies;
  - b. scope and compliance problems (for example, where there are concerns councils are not complying with regulatory requirements);
  - c. how to resolve disputes between developers and councils – and who should do this.

*Ministers want development levies to be regulated by the Commission*

25. Within the new regulatory regime, there is a question about regulatory roles and responsibilities, and who is the regulator for development levies.
26. Ministers have decided to progress work on standing up the Commission as an independent regulator for development levies. This is based on the view that the Commission currently regulates monopoly suppliers in several industries and there are some similarities between its existing regulatory functions and the functions which will be required to regulate development levies.

### **What objectives are sought in relation to the policy problem?**

27. The proposed regulatory regime for the new development levies policy seeks to increase *transparency* and *certainty* for councils, communities and developers.
28. This is the first of a two-part RIS process supporting a new regulatory regime for development levies and in principle decision to appoint the Commerce Commission as the regulator for this regime. This is subject to further analysis to develop the details needed to give effect to this approach.
29. The second part of the RIS will follow in 2026 alongside the detailed policy proposals of the specific functions and powers the Commerce Commission would need to take on a regulatory role for development levies. As well as the integration of development levies with the existing local government oversight system to maintain the Commerce Commission's independence, including the Minister of Local Government's powers to act in relation to local government.
30. The GfHG programme has three pillars focussing on planning reform (Pillar 1), improving infrastructure funding and financing (Pillar 2) and providing incentives for communities and councils to support growth (Pillar 3). For the proposed regulatory regime for the new development levies policy to be successful, it needs to be well aligned and incorporated into the wider suite of reforms under the GfHG programme.

### **What consultation has been undertaken?**

31. Engagement with councils, developers, sector bodies, and central agencies was undertaken about the change from the development contributions to development levies. Part of these discussions included regulation of the new scheme, and in them, developers emphasised the importance of an independent regulator. The Property Council of New Zealand has also written to the Minister of Housing requesting the stand up of an independent regulator at the same time as the establishment of development levies.
32. Officials have done some initial consultation with councils and the Property Council of New Zealand around the problems with the regulation of development contributions and the proposed interim arrangements for development levies.
33. No consultation has been done with councils, individual developers (the Property Council of New Zealand has been consulted), ratepayers, or communities about an economic regulator for development levies. There has not yet been specific consultation with any affected parties on the Commission taking a regulatory role.
34. External consultation has not occurred, although we are aware of a range of views from the public and stakeholder groups about changing to a development levy system with independent economic regulation, which include:



- a. Developers are positive, indicating that the regulator would bring “much needed consistency to the system, and provide greater long-term certainty for development”.<sup>2</sup>
  - b. Local Government New Zealand have indicated they are tentatively positive.<sup>3</sup>
  - c. Two Mayors (Tauranga and Hamilton) have said that it is a much needed change.<sup>4</sup>
35. The second part of the RIS that will follow in 2026, alongside the Cabinet paper, will set out the detailed policy proposals of the specific functions and powers of the regulator. As the details of the regulatory regime are worked through further consultation will be undertaken with the Commission, Ministry of Housing and Urban Development (MHUD), Ministry of Business, Innovation and Employment (MBIE), and Treasury. This would include the exact function of the regulator, what expansion of role the Commission would need to become the regulator, how this regime would interact with the existing local government oversight system to maintain the Commission’s independence, including the Minister of Local Government’s powers to act in relation to local government, and how this would fit alongside other reforms that affect local government.
36. There will be no consultation with councils, developers, ratepayers, or communities about an economic regulator for development levies at this stage. There will be a select committee process for the legislative vehicle that is used, where these parties will be able to comment on and influence the bill.

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<sup>2</sup> Bell (2025). New tools to fund infrastructure? Here’s what developers think. The Post. 5 March 2025. <https://www.thepost.co.nz/business/360598125/new-tools-fund-infrastructure-heres-what-developers-think>

<sup>3</sup> LGNZ (2025). New funding and financing tools could be a ‘game changer’. Media Release. 28 February 2025. <https://www.lgnz.co.nz/news/media-releases/new-funding-and-financing-tools-could-be-a-game-changer/>

<sup>4</sup> McConnell (2025). The new tool Chris Bishop says could end NZ’s housing crisis. Stuff. 28 February 2025. <https://www.stuff.co.nz/politics/360597728/new-tool-chris-bishop-says-could-end-nzs-housing-crisis>.

## Section 2: Assessing options to address the policy problem

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### What criteria will be used to compare options to the status quo?

38. The proposed regulatory regime for the new development levies policy seeks to increase trust and certainty for councils, communities, and developers through providing transparency and certainty on how development levies are set, applied, and used.
39. A transparent regulatory regime would allow developers and the public to understand how councils have designed their development levies policy, who gets charged what, and how the funds are spent.
40. A regulatory regime that provides certainty would enable developers and the public to know what they would be charged early on in the development process enabling them to make more informed decisions about land purchases or development options.
41. Options will be evaluated against the extent to which they provide for transparency and certainty.
42. Consideration will also be given as to how options work as part of the regulatory context, cost, and impact on councils.

### What scope will options be considered within?

43. In early October 2025, the Ministers of Housing, Local Government, and Consumer Affairs agreed that the Commerce Commission should be established as the regulator for development levies and a new regulatory regime be developed [LG20259513].
44. These ministerial decisions have constrained the scope of what options have been analysed.

### What options are being considered?

#### Matter one – setting up a regulatory regime for the development levy system

45. The options analysed for the first matter – the regulatory regime for the development levies - to be addressed are:
  - a. status quo – the current regulatory requirements in development contributions regime;
  - b. option one – the interim regulatory regime; or
  - c. option two – a new regulatory regime.

#### *Status quo – current regulatory requirements*

46. The status quo is the current development contributions regime, which will cease to exist when it is replaced by the new development levies regime. Development contributions do operate within a regulatory regime set out in the Local Government Act 2002 (Part 8 Regulatory, enforcement, and coercive powers of local authorities and Part 10 Powers of Minister to act in relation to local authorities).

#### *Option 1 - Interim regulatory regime*

47. Initially an interim regulatory regime (option one) for development levies, consisting of disclosures, some standardised methodology, and Crown step-in powers was explored.

Existing Ministerial powers under Part 10 of the Local Government Act 2002 would continue to apply, as would the ability to judicially review councils' decisions.

48. This option would give the Department the primary regulatory role for the use of development levies. It includes an information disclosure regime and step in powers for the Crown where development levies are misapplied.

49. The interim regime would have been an approach to support councils and developers as they transition to the new development levies regime. This approach was developed in response to conversations with the development sector and local government. We note that the intention of designing an interim regime for development levies was to provide for oversight while work is on-going to develop a wider regulatory regime for local government funding and financing.

50. Key information disclosure requirements that would be included in this regime are set out below:

- a. The information required will include development levy policies, information on the decisions to use a levy, considerations in setting levy zones (and establishing high-cost areas), expectations for councils, forecasting and underpinning assumptions, and actual and expected costs of growth infrastructure. Underpinning this will be recordkeeping requirements.
- b. Disclosures should enable public understanding and accountability. They should be easy to read and give a clear picture of costs, both forecast and actual, and make it easy to track if costs are being adequately recovered. This is in line with the initial regulation being conducted by the Commission for water reforms.
- c. Officials propose standardising the content and form of disclosures to make information easier to find and understand within the context of council infrastructure strategies. We propose using existing public accountability mechanisms where appropriate (e.g., annual reports). This will also have the benefit of establishing a data set which can be used to inform future regulation and an indication as to the success of the policy settings of development levies in future reviews.
- d. In addition to the tools outlined above, there are existing reporting and consultation requirements which may be used for information disclosures. These include Long-term Plans, Annual Reports, and Asset Management Plans. We propose that in developing the details of the disclosures regime, the most appropriate use of these existing tools be considered.

51. Crown step in powers requirements that would be included in this regime are set out below:

- a. The Crown have step-in powers where development levies are being used inappropriately officials propose that the Minister of Local Government have the power to require specific explanations by councils where there is evidence that development levies may have been applied incorrectly. These disclosures may be on any aspect of the development levy, including aspects of the development levy policy and the decisions which underpin the policy, forecasting and assumptions, and use of funds.
- b. Officials also propose that the Minister of Local Government have the power to direct a council to get an independent audit of development levies. Councils

will be responsible for the costs of the audit and will need to receive sign-off from the Minister on the scope of the audit and the organisation conducting the audit. This audit will be made publicly available and open councils up to challenge from developers. Officials note that powers from part 10 of the LGA02 will continue to apply and may be used by the Minister of Local Government where there is a 'significant problem'.

52. We note that an independent disputes resolution mechanism will be considered as part of the work to develop a wider regulator for local government.

53. In October 2025, Ministers agreed to establishing a regulator for development levies from 'Day 1'. This halted further work on the interim regime option and any other alternatives.

#### *Option 2 – a new regulatory regime*

54. The Cabinet paper asks Cabinet to agree to the new regulatory regime (option two).

55. Option two a new regulatory regime is the Minister's preferred option, the details of this option have yet to be worked through and analysed. The Cabinet paper has a report back date of April 2026, the detail of the new regulatory regime will be set out there.

56. The Department's preferred option is option one, an interim regulatory regime. This was likely to apply the existing regulatory regime for development contributions with the introduction of a new disclosures regime and additional intervention options for the Crown.

#### Matter two – who will be the regulator

57. For the second matter – who the regulator will be – the options analysed are:

- a. status quo – a dispersed model where the Department of Internal Affairs is the steward of the regulatory system, an objection process heard by a Development Commissioner who has the power to make binding recommendations, the Courts with a Judicial review function and the Minister of Local Government with some intervention powers under the Local government Act 2002; or
- b. option one – independent regulator – the Commerce Commission.

58. The status quo option, continuing to use existing powers in the Local Government Act 2002, that the Department of Internal Affairs can step in and request information has not been considered a viable option due to the feedback from consultation that an independent regulator was desired, and has not been analysed in full.

59. In October 2025, Ministers decided to pursue investigations for an independent regulator being established for the development levies regime and for this regulator to be the Commission, option one. As a result of this ministerial decision alternative options have not been fully analysed.

60. The Cabinet paper asks Cabinet to agree, in principle, to the Commission becoming the regulator for development levies – subject to further work to develop the details of this approach.

61. While there are other potential options for the regulation of development levies, the Commission appears to offer a pragmatic solution – particularly given it is already a well-established, independent economic regulator, which recently expanded its remit into regulating water services (covering similar regulated parties to the bodies that will charge development levies).



62. The approach to water regulation provides a useful guide to consider the Commission's potential role in regulating development levies. Making the Commission the regulator for development levies, this would further expand its role.
63. The Commission's role here could include, for example:
- a. specifying the information to be disclosed;
  - b. analysing and publishing that information in a manner that makes it possible to provide assurance that the development levies are consistent with service parameters;
  - c. allowing for information and disclosure to be compared across jurisdictions and with past performance on each key metric and where improvements are expected in future.
64. The skills required for development levy work are broadly consistent with the Commission's role in other sectors, though the Commission will need to grow local government oversight capability and expertise to deliver the regulation.
65. The Commission's current role includes:
- a. a general market-wide competition and consumer law regulatory function; and
  - b. regulatory functions relating to:
  - c. markets in which there is no effective competition (i.e., infrastructure regulation under Part 4 of the Commerce Act and part 6A of the Telecommunications Act); and
  - d. markets in which conditions of competition are limited, and regulation has been imposed as a matter of policy (i.e., market regulation under legislation like the Fuel Industry Act or the Grocery Industry Competition Act).
66. The Commission's purposes in regulating markets are to promote competitive outcomes and/or transparency for the long-term benefits of customers. They do this through functions such as:
- a. information disclosure regulation;
  - b. price-quality regulation;
  - c. investigation and enforcement; and
  - d. dispute resolution schemes (telecommunications, fuel, dairy industries).
67. The Local Government (Water Services) (Repeals and Amendments) Act 2025 expanded the Commission's purpose and moved away from regulating commercial entities. It introduced additional tools for the regulation of water services:
- a. revenue thresholds;
  - b. financial ringfence requirements;
  - c. performance requirements; and
  - d. consumer protection measures.
68. Establishing an information disclosure baseline would be the key first step in the regulatory regime for development levies. Further regulatory tools could then be added to this to address issues and concerns relating to compliance and enforcement.

69. This would most likely involve a role for the Commission in:

- a. enforcement of the information disclosure requirements; and/or
- b. dispute resolution (negotiation/arbitration) – for example, where communities and developers can raise concerns with councils’ development levy policies or aspects of policies.

70. When exploring who will take on new regulatory responsibilities, it is important to consider utilising existing regulators relevant to local government – such as the Commission – to maximise efficiencies and synergies, and help ensure coherence across the system. This aligns with the direction previously agreed by Cabinet – that an integrated approach would be taken to the regulatory oversight of development levies and local authority rates [ECO-24-MIN-0283].

71. Further regulatory design work will need to consider, and be informed by, the broader context in which local government is regulated, and links with other reforms – including the new regulatory regime for water services established through Local Water Done Well, the regulatory approach to rates capping, and potential future local government regulation.

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### How do the options compare to the status quo/counterfactual?

72. Note that taking no action is not a possible scenario, Cabinet has agreed to introduce a new development levies system, replacing the existing development contributions system.

73. A transparent regulatory regime would allow developers and the public to understand how councils have designed their development levies policy, who gets charged what, and how the funds are spent.

74. A regulatory regime that provides certainty would enable developers and the public to know what they would be charged early on in the development process enabling them to make more informed decisions about land purchases or development options.

<i>Matter one – setting up a regulatory regime for the development levy system</i>		
	<b>Option 1 - Interim regulatory regime</b>	<b>Option 2 - a new regulatory regime</b>
<b>Transparency</b>	+	++
	Disclosures should enable public understanding and accountability.	Mandated and clear disclosures requirements would enable public and developers understanding and accountability.
<b>Certainty</b>	+	+(+)
	Lower levels of certainty as the system would be interim and so would change.	Clear levy requirements set out in policies would give developers and public certainty on the arrangements in place. Levels of increased certainty will be contingent on the regulatory functions decided.
<b>Impact on councils</b>	++ low impact	--
	Time to maximise efficiencies and synergies and help ensure coherence across the wider local government regulatory system.	Introducing a new regulatory regime will mean more work for councils in developing the information that would be disclosed and meeting any reporting requirements.
<b>Cost</b>	++ low cost	--- high cost
	This would be incorporated into DIA's existing council monitoring role and support provided.	Introducing a new regulatory regime will require establishment and ongoing costs estimated at a range of 9(2)(g)(i) over a five-year period. Some additional cost to councils depending on what regulatory requirements are agreed upon and how burdensome reporting.
<b>Overall assessment</b>	++ preferred option	+
		Details of this option have yet to be worked through and analysed so comparing it to the status quo is difficult.

	<p>The interim regime would have been an approach to support councils and developers as they transition to the new development levies regime. We note that the intention of designing an interim regime for development levies was to provide for oversight while work is on-going to develop a wider regulatory regime for local government funding and financing.</p>	<p>Expected increased efficacy of the development levies regime and compliance with the regime.</p>
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*Matter two – who will be the regulator*

Option 1 – independent regulator – the Commerce Commission		
	++	
<b>Transparency</b>	The independence of the Commission and the reporting requirements will mean the regulatory system will be transparent.	
<b>Certainty</b>	++(+) Levels of support and increased certainty will be contingent on the regulatory functions decided.	
<b>Impact on councils</b>	-- Introducing new regulatory requirements with an independent regulator will add extra work and cost for councils, however, utilising existing a regulator relevant to local government, the Commission, will reduce the impact on councils.	
<b>Cost</b>	--- high cost Introducing a new regulatory regime will require establishment and ongoing costs estimated at a range of 9(2)(g)(i) over a five-year period for the Commission. The costs on other affected parties have not yet been estimated and will be an additional cost.	
<b>Overall assessment</b>	+ The Commission is a well-established, independent economic regulator, which recently expanded its remit into regulating water services (covering similar regulated parties to the bodies that will charge development levies). However, the Commission would have to expand its role again to regulate development levies.	

Note no other options for who the regulator could be have been analysed because Ministers decided that the Commission would be the regulator.



**What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?**

*Matter one – setting up a regulatory regime for the development levy system*

75. In October 2025, Ministers agreed to establishing a regulator for development levies from 'Day 1'. This halted further work on the interim regime option and any other alternatives. The Cabinet paper asks Cabinet to agree to the new regulatory regime (option two).
76. Option two, a new regulatory regime is the Minister's preferred option, the details of this option have yet to be worked through and analysed. The Cabinet paper has a report back date of April 2026, the detail of the new regulatory regime will be set out there.
77. The Department's preferred option is option one, an interim regulatory regime. This was likely to apply the existing regulatory regime for development contributions with the introduction of a new disclosures regime and additional intervention options for the Crown.
78. Officials have a preference for option one (interim-regulatory regime) as it places the least burden on councils by making use of existing tools and mechanisms. Most importantly, it allows time for work to be undertaken on the wider local government regulatory context prior to setting up a higher cost option which may need to be changed down the line to avoid misalignment with other regulatory frameworks/ tools. In particular, it allows time for consideration of how development levies and rates capping will work together, minimising the risk of mixed incentives for councils.

*Matter two – who will be the regulator*

79. In October 2025, Ministers decided to pursue investigations for an independent regulator being established for the development levies regime and for this regulator to be the Commission, so option one. As a result of this ministerial decision alternative options have not been fully analysed.
80. The Cabinet paper asks Cabinet to agree, in principle, to the Commission becoming the regulator for development levies – subject to further work to develop the details of this approach.
81. Option one, while meeting policy objectives, is significantly more expensive than the status quo. Taking this decision now, does not allow the time for adequate consideration of how new regulation will fit within the wider context prior to requiring significant Crown funds for establishment costs. Option one will require more novel mechanisms for reporting and make less use of established mechanisms placing more of a burden on councils.

## Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

### *Matter one – setting up a regulatory regime for the development levy system*

No. The Cabinet paper seeks agreement to setting up a new regulatory regime (option 2). Officials preferred option is an interim regulatory regime (option 1). This would have been an approach to support councils and developers as they transition to the new development levies regime. We note that the intention of designing an interim regime for development levies was to provide for oversight while work is on-going to develop a wider regulatory regime for local government funding and financing.

### *Matter two – who will be the regulator*

No. The Cabinet paper seeks agreement, in principle, to the Commerce Commission (Commission) becoming the regulator for development levies – subject to further work to develop the details of this approach (option one). Officials preferred option is the status quo, allowing the decision on the regulator for development levies to be made as part of further work that was planned on options for developing the wider regulatory system for local government, including development levies, rates capping, and the provision of water services. This further work would have included the sequencing of regulatory oversight mechanisms and where regulatory responsibilities would sit.

## What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Officials note that making decisions early could create misalignment with the suite of changes coming going on across the sector, including Resource Management Reform, Local Water Done Well, the other pillars of the GfHG, and rates capping. This would result in extra cost if these decisions need to be changed and work needs to be repeated.

### *Estimated cost for this regulatory system*

The indicative cost for implementing and running the proposed regulatory system for both matters (new regulatory regime and the Commerce Commission as the regulator) is in the range of 9(2)(g)(i) over a five-year period – broken down as follows.

Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	5- year total
9(2)(g)(i)						

83. The cost estimate is a high-level estimate based on the estimates developed for, and the experience in practically implementing, the Commission's water regulatory function.
84. The cost estimate necessarily reflects the level of uncertainty in the policy design and conversations with the Department of Internal Affairs on the known policy parameters and objectives and role of the regulatory system. With more certainty, costs will become firmer. The Commission will also be able to obtain synergies with more than one local government related function (e.g. water and development levies).
85. The profile assumes set-up and development costs in year 1 to 3, with additional cost in year 3 for approval and scrutiny, and costs falling to BAU levels in years 4 and 5.

86. The cost of the scrutiny and approval function is strongly related to the number of regulated entities. The Commission has assumed that there will be 91 entities requiring scrutiny and approval [67 territorial authorities, 11 regional councils, and 13 joint water organisations]. The costs of the other functions are more loosely related to the number of regulated entities. However, the Department of Internal Affairs notes that these assumptions will be reconsidered as further advice is prepared to recognise that regional councils are not permitted to use development levies, and some territorial authorities are unlikely to use them (e.g. low growth councils that do not currently use development contributions).
87. The lower-end estimate assumes less activity is required for developing transparency requirements, scrutiny and approval. Both the low and high end assume some cost savings due to synergies between the water and the development levy regulatory regimes.
88. The cost of a complaints and dispute resolution and arbitration function is subject to significant uncertainty as it depends on a number of factors, including how much cost is allocated to developers and the level of prescription vs judgement available to councils. The Commission also generally comment that the cost of a disputes function would be greater in a sector where private parties to potential disputes (i.e. developers) are likely well-resourced and potentially litigious.

Affected groups	Comment	Impact	Evidence Certainty
<b>Additional costs of the preferred option compared to taking no action</b> <i>Note that taking no action is not a possible scenario, Cabinet has agreed to introduce a new development levies system, replacing the existing development contributions system. The second stage RIS, focussed on detailed policy decisions, will better be able to assess impacts.</i>			
Councils using development levies	Some additional cost depending on what regulatory requirements are agreed upon and how burdensome reporting is, but likely to overall, be cheaper for councils as developers will meet more of the costs of new growth infrastructure.	Unknown	Medium
The Commerce Commission	The Commission will need to establish new functions – what these functions are, and precise costings are yet to be determined. The Commission does not undertake these functions currently so	9(2)(g)(i) over 5 years	Medium

	this will be a higher cost.		
Developers	Unclear at this stage of policy development. Not expected to be significant additional costs but if councils administrative costs increase, this might be passed onto developers.	Unknown	Medium
Rate payers	The policy intent of introducing the development levies system is to reduce costs to existing ratepayers.	Unknown	Medium
Communities	Communities are essentially a collection of ratepayers, as with individual ratepayers, the policy intent is to reduce costs to communities.  There are also significant numbers of non-rate payers who live in communities whom the Council provides services; who might live in developed area or those being newly developed and who require access to infrastructure which will be delivered through the levies, so their costs would be reduced as they get improved services that save them money.	Unknown	Medium
Department of internal Affairs	The preferred option is likely to increase costs to the Department in the initial stages of establishing the new system but lower costs in the longer-term as the Commerce	Unknown	Medium

	Commission is established and assumes the regulator function.		
<b>Total monetised costs</b>	<i>To be determined</i>	9(2)(g)(i) over 5 years	Low
<b>Non-monetised costs</b>	<i>High</i>	<i>High</i>	<i>low</i>
<b>Additional benefits of the preferred option compared to taking no action</b> <i>Note that taking no action is not a possible scenario, Cabinet has agreed to introduce a new development levies system, replacing the existing development contributions system. The second stage RIS, focussed on detailed policy decisions, will better be able to assess impacts.</i>			
Councils using development levies	<p>Levels of support and increased certainty will be contingent on the regulatory functions decided.</p> <p>Increased efficacy of the development levies regime and compliance with the regime.</p>	Increased certainty and possibly a decrease in litigation from developers – contingent on functions	Low
The Commerce Commission	The Commission will need to stand up new functions, which, when coupled with its new water regulatory function, gives the Commission greater capacity and capability over the longer-term to assume a wider regulatory role in the local government system.	Unknown	Medium
Developers	Increased certainty around application and spending of development levies. Potentially leading to more informed land purchase and development decisions.	Unknown	Medium
Ratepayers	If the policy intent of the new development levies policy, and associated regulatory	Unknown	Medium



	regime is achieved, then existing ratepayers will contribute less towards the cost of new growth infrastructure resulting in lower rates bills and potentially, increased services and other infrastructure from councils.		
Communities	As above for ratepayers but on a collective scale.	Unknown	Medium
<b>Total monetised benefits</b>	Unknown	Unknown	Unknown
<b>Non-monetised benefits</b>	<i>Medium</i>	<i>Medium</i>	<i>Low</i>

## Section 3: Delivering an option

### How will the proposal be implemented?

89. If Cabinet agrees to establish the new regulatory regime (matter one) and establish, in principle, the Commerce Commission as the regulator for development levies (matter two), implementation will require legislation to establish the Commission as the regulator and its functions (the specific type is yet to be determined, but we assume a bespoke legislative vehicle). This legislation will expand the Commission's remit and define its functions in relation to development levies.
90. The Department will need to do work to support implementation of an oversight body including the legislative change process. The Department will also likely have a role supporting the Commission through the service design and remaining abreast of the Commission's implementation work to ensure that it aligns with the wider reforms.
91. The Commerce Commission will be responsible for the ongoing operation and enforcement of the new arrangements.
92. New funding for implementation will be required to cover establishment costs and ongoing operational expenses.
93. The implementation process will be phased. Initial regulatory functions will focus on information disclosure, with further tools such as compliance monitoring and dispute resolution added over time. This graduated approach allows for system maturity and stakeholder adaptation.
94. Transitional arrangements will be required. Details of this need to be worked through and will be the subject of the second stage RIS. It is likely that some form of the interim regulatory regime that was under development until the October 2025 Ministers decisions

will be used until the Commission's functions are fully operational. This is likely to include disclosure requirements and Crown step-in powers.

95. Further analysis will be undertaken to consider the implementation implications (if any) of all the affected stakeholders, including:

- a. developers;
- b. councils
- c. ratepayers; and
- d. communities.

**How will the proposal be monitored, evaluated, and reviewed?**

96. This will be determined following the detailed policy work and included in the second stage RIS.

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