

U N C L A S S I F I E D

Department of Internal Affairs

Proactive release of Regulatory Impact Statement: Regulation of development levies – functions
and powers
10 June 2026

These documents have been proactively released:

Regulatory Impact Statement: Regulation of development levies – functions and powers

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U N C L A S S I F I E D

Regulatory Impact Statement: Regulation of development levies – functions and powers

Decision sought	<i>This Regulatory Impact Statement (RIS) covers the proposed regulation of development levies in New Zealand, focusing on the functions and powers of the Commerce Commission as the independent regulator. Two decisions are being sought:</i> <i>the scope and purpose of regulation of development levies; and</i> <i>the range of specific functions and powers the Commerce Commission would need to take on as the regulator of development levies.</i>
Agency responsible	<i>The Department of Internal Affairs and the Ministry of Housing and Urban Development</i>
Proposing Ministers	<i>Hon. Chris Bishop, Hon. Simon Watts, and Hon. Cameron Brewer</i>
Date finalised	<i>15 April 2026</i>

The Ministers propose a suite of new functions and powers necessary for the Commerce Commission to exercise its regulatory role in monitoring the new development levies system. These include setting the levy calculation methodologies, information disclosure, additional rule-making powers, and compliance and enforcement.

Summary: Problem definition and options

Context

This is the second of two RISs about regulation of development levies. The first RIS assessed whether independent regulation of development levies was needed and who the regulator should be (found [here](#)).

This RIS covers the proposed regulatory regime for the new development levies system, which will replace the development contributions regime, focusing on the functions and powers of the Commerce Commission as the independent regulator. The earlier [RIS](#) that assessed the change from development contributions to development levies outlines the wider problem about the housing shortage in New Zealand and the options to improve infrastructure funding arrangements.

Pillar 2 of the Going for Housing Growth (GfHG) work programme covers improvements to infrastructure funding and financing to support growth. As part of Pillar 2, in December 2024,

Cabinet agreed to high level settings to replace development contributions with development levies and that development levies be subject to regulatory oversight [CAB-24-MIN-0494].

On 17 November 2025, Cabinet agreed in principle to the Commerce Commission being the regulator for development levies and that Ministers of Housing and Local Government would report back to Cabinet in March/April 2026 with the details of the regulatory system [ECO-25-MIN-0192].

Officials have advised the purpose of regulated goods or services (Part 4) in section 52A of the Commerce Act 1986 does not align with regulation of development levies, and Ministers have agreed to a bespoke regime tailored to the principles of the Local Government (Infrastructure Funding) Amendment Bill (the Bill) [LG202510156]. Ministers also agreed regulation should be housed within the Local Government Act 2002 and progressed through the Bill [LG202510156].

What is the policy problem?

The policy problem for this RIS builds on the problem from the first RIS “that a move to a more flexible system 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 policy problem is how to design a regulatory regime that builds trust and confidence among territorial authorities, water organisations, developers, and communities by providing assurance that levies are set and used in a way that is transparent, predictable, and consistent.

What is the policy objective?

The objective is to have a well-designed regime that will mean the Commerce Commission has the powers, tools and functions it needs to ensure development levies charges are predictable for developers, consistent across the country and for each development, and that there is transparency in how the charges are set and funds are used. A secondary objective is to design of the regulatory regime is aligned with other regulatory regimes in New Zealand (particularly local government regulatory regimes) and it is simple and cost effective to operate.

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

Cabinet agreed that the development levies system would be regulated in December 2024 [CAB-24-MIN-0494]. Cabinet also agreed in principle to the Commerce Commission being the regulator for development levies [ECO-25-MIN-0192]. These Cabinet decisions mean doing nothing is not an option as Cabinet has already agreed that the development levies system will be regulated.

The proposed components of the regulatory regime for development levies were identified from a mixture of the existing arrangements for the development contributions regime (the dispute resolution regime) and functions that the Commerce Commission has for other industries that they regulate (information disclosure, setting methodologies, and performance rules). Some functions that the Commerce Commission has for other industries (such as ring fencing and price-quality pathway regulation) were not chosen for the development levies system because they are designed for regulating all sources of revenue and all expenditure for an industry and not a single source of revenue and single form of expenditure which is what development levies are.

The proposed components of the regulatory regime for development levies are:

1. monitoring through information disclosure;

2. setting the development levies calculation methodologies;
3. additional performance rules; and
4. disputes resolution.

These functions can be managed by the Commerce Commission, Department of Internal Affairs (DIA)¹, or existing external arrangements. There are three options to consider:

5. **Option 1** the Commerce Commission has a **monitoring role** using information disclosure.
 - a. In this option, the existing disputes resolution regime remains with an added reporting requirement to the Commerce Commission.
 - b. The Department of Internal Affairs would develop the levy calculation methodologies.
6. **PREFERRED: Option 2** the Commerce Commission has a **role monitoring, setting the levies calculation methodologies**, and having the ability to set additional **performance rules**. This is the **Minister's preferred option**.
 - a. In this option, the existing disputes resolution regime remains with an improvement to how development levies commissioners are assigned to objections processes and an added reporting requirement to the Commerce Commission.
7. **Option 3** the Commerce Commission has a **role monitoring, setting the levies calculation methodologies**, having the ability to set additional **performance rules**, and operating a **dispute resolution regime**.

What consultation has been undertaken?

Consultation about the regulatory design has only occurred with the Housing Expert Advisory Group (HEAG). HEAG was established by the Ministry of Housing and Urban Development (HUD) to support policy design and delivery of the GfHG work programme. One workshop occurred with all of HEAG and then a series of further discussions with one member of HEAG with specific expertise in economic regulation about the detailed design of the regulatory regime.

Engagement with councils, developers, sector bodies, and central agencies was undertaken about the change from the development contributions regime to a development levies system. Part of these discussions included the need to regulate the new system. Property developers emphasised the importance of an independent regulator. The Property Council of New Zealand wrote to the Minister of Housing requesting the establishment of an independent regulator at the same time as the new development levies system comes into effect.

The consultation period for the Local Government (Infrastructure Funding) Amendment Bill exposure draft ended on 20 February 2026, with a total of 56 submissions received. While regulation of the development levies system was not included in the exposure draft, many submitters provided feedback on the proposal in support of the Commerce Commission as the independent regulator for development levies. Their support was that this would build confidence and trust in the new system and ensure consistency and transparency. Submitters noted that the regulator's scope and purpose must be clearly defined to ensure that they do not undermine local democratic decision-making.

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

Yes, option 2 is the preferred option of Ministers and officials.

¹ Proposed machinery of government changes will mean that the local government function of DIA will move to the Ministry of Cities, Environment, Regions and Transport (MCERT) alongside Ministry of Transport (MoT), Ministry of Housing and Urban Development (HUD), and Ministry for the Environment (MfE).

Summary: Minister's preferred option in the Cabinet paper

Costs (core information)

The core costs of option 2 - the Commerce Commission has a **role monitoring, setting the levies calculation methodologies**, and having the ability to set additional **performance rules** and the **existing disputes regime is maintained with some improvements** include:

- **Regulator establishment costs:** incurred by the Crown to fund Commerce Commission to establish the system (i.e., methodologies, consultation, determinations, guidance, assurance, and enforcement), requiring additional resourcing and new technical/economic/legal capability.
- **Ongoing operational costs of the regulator:** borne by developers, as Commerce Commission regulatory costs are recovered from the primary beneficiary (developers).
- **Costs on regulated parties of a new regulatory regime:** borne by territorial authorities and water organisations (and indirectly by ratepayers) from engaging with the regulator and preparing/providing required information.
- **Central agency implementation and system-stewardship costs:** incurred by the Department of Internal Affairs (DIA)/Ministry of Cities, Environment, Regions and Transport (MCERT) (when established) to support sector transition and monitor/alignment with wider local government reforms.

Benefits (core information)

The core benefits of option 2 - the Commerce Commission has a **role monitoring, setting the levies calculation methodologies**, and having the ability to set additional **performance rules** and the **existing disputes regime is maintained with some improvements** include:

- **Improved transparency and consistency in levy setting:** Clear rules, standardised methodologies, information disclosure, and guidance improve transparency, consistency, and predictability in how development levies are set and applied. This is expected to reduce disputes and lowers reliance on judicial review.
- **More efficient and equitable allocation of growth-related costs:** Greater certainty that growth-related infrastructure costs are accurately attributed to developments rather than general rates. Compared with an unregulated system, ratepayers are likely to bear a lower share of growth-related costs, easing pressure on rates and supporting service levels.
- **More predictable infrastructure funding and planning:** Regulatory oversight and clear methodologies support more predictable funding of infrastructure, enabling better planning and sequencing of growth and reducing inequities in how costs are allocated across areas and projects.
- **Improved long-term efficiency of infrastructure provision:** Increased certainty supports better long-term planning and can improve the efficiency of infrastructure provision over time, contributing to more stable development costs.
- **Greater certainty for development investment decisions:** Standardised methodologies and clearer rules increase certainty and confidence for developers about levy calculations and expected costs, supporting more informed decisions about development feasibility.

Balance of benefits and costs (core information)

Overall, option 2 provides the best balance of benefits to costs. The benefits are primarily driven by increased certainty, transparency, and consistency in how development levies are set and applied, and by improved oversight of cost allocation. These gains support more equitable attribution of growth-related infrastructure costs, reduce disputes, and enable better long-term planning and investment decisions. These benefits are achieved through option 2 whilst not being overly costly or misaligned with other local government regulatory

regimes, which option 3 would be due to the expected much higher costs and reduced independence of the Commerce Commission being involved in individual dispute resolution. While the regulation of the development levies system introduces new compliance, regulatory, and transitional costs for councils, developers, and central agencies. These costs are mitigated by improvements in the operation of the development levies system, as a result of standardised methodologies, clear rules, and guidance, ensuring “growth pays for growth” and a reduction in numbers of disputes. Overall, the improved efficiency, predictability, and fairness of outcomes are expected to outweigh the additional costs over time.

Affected parties

Commerce Commission

The Commerce Commission would face additional work to establish and operate the regulatory system - developing methodologies, undertaking consultation, publishing determinations and guidance, running assurance and enforcement processes. This will increase its resourcing needs (particularly in the establishment phase) and require new technical, economic, and legal, capabilities to sustain effective oversight over time (ongoing operational costs), particularly as or when new functions are added over time (such as compliance and monitoring).

Developers

Regulation would introduce standardised methodologies and clearer rules giving developers greater certainty and confidence about how levies are calculated and the costs they are likely to face. This would support more informed decisions about development feasibility.

Commerce Commission costs in regulating development levies will be recovered from the primary beneficiary (i.e., developers) so there will be an added cost on developers to fund the regulation.

Territorial authorities and water organisations

Clear rules, standardised methodologies, and regulatory guidance are expected to provide greater transparency and help reduce disputes with developers over these costs, thus lowering reliance on judicial review.

Regulation introduces new ongoing administrative and compliance costs associated with engaging with the regulator and preparing information, increasing costs for territorial authorities and water organisations.

Ratepayers

An independent regulator for the development levies system provides greater certainty to ratepayers that growth-related infrastructure costs will be appropriately attributed to developments by territorial authorities and water organisations, rather than defaulting to general rates.

Ratepayers are likely to face a lower share of growth-related costs than they would under an unregulated regime. This may reduce pressures on rates and support councils to maintain or improve service levels.

Communities

Clear methodologies and regulatory oversight can support more predictable infrastructure funding, helping ensure that growth is better planned and serviced over time. Improved oversight may also reduce inequities in how costs are allocated across different areas or projects within a given area.

The increased certainty enables better planning and may improve long-term efficiency in infrastructure provision, which can contribute to more stable development costs.

Department of Internal Affairs (DIA)/Ministry of Cities, Environment, Regions and Transport (MCERT)

MCERT is the proposed new agency that will amalgamate the local government part of DIA, Ministry of Housing and Urban Development (HUD), Ministry for the Environment (MfE), and Ministry of Transport (MoT).

With the changes to the regulated development levies system, territorial authorities and water organisations will likely need support to come up to speed.

The change from a development contributions regime to a development levy system with an independent regulator will occur within a wider system of local government change, including resource management reform, simplifying local government, and rates capping. DIA/MCERT will need to monitor system-level impacts and support alignment between the regulation of this regime and wider local government funding and planning processes.

Implementation

Legislation to establish the Commerce Commission powers and functions to implement its role will be included in the Local Government (Infrastructure Funding) Amendment Bill, which is proposed for introduction in August 2026.

The implementation process is to be phased. Initial regulatory functions will focus on information disclosure, with further tools such as compliance monitoring added over time. This graduated approach allows for system maturity and stakeholder adaptation.

Implementation will involve:

- DIA/MCERT leading overall stewardship of the regime and supporting territorial authorities and water organisations through transition.
- The Commerce Commission preparing regulatory processes, developing, consulting on, and setting the levies calculation methodologies, and establishing oversight functions once authorised by legislation.
- Territorial authorities, water organisations, and developers preparing to operate within the new regulated development levies regime, including developing new development levies policies, applying new levies calculation methodologies in their local contexts, understanding new disclosure requirements, and aligning internal systems new requirements.
- Cross-agency coordination (DIA, HUD, MfE, MoT, MBIE, Treasury, and others) to manage sequencing alongside other major reforms.

Implementation risks:

1. **Legislative timing** – the timelines are very tight to get legislation introduced before the November 2026 election, this will impact the quality of the Bill for introduction.
2. **Regulator readiness and authorisation** – The Commerce Commission will need legislation to be in force, with the necessary powers having taken effect, before they can undertake statutory consultation on the levies calculation methodology and information disclosure requirements. The Commerce Commission can engage before the legislation is passed with support of DIA on draft levies calculation methodology and information disclosure requirements to try and give territorial authorities and water organisations some indication of the arrangements will apply before they

prepare their development levies policies. However, there are risks that requirements will change through the select committee process.

3. **Funding for the regulator, including through cost-recovery** – funding for the establishment of the regulatory role for the Commerce Commission is subject to Budget 2026 and funding for the ongoing costs is subject to agreement to recover them from the beneficiaries of the regulation (developers).
4. **Alignment with wider reforms** – rates capping will impact councils' ability to raise revenue to fund infrastructure and resource management reform will make planning more flexible so councils will be expected to deliver more infrastructure to support development over a wider area. Councils will need access to this more flexible funding tool to deliver infrastructure to support these developments. Regulatory pressure on development levies and rates capping may restrict councils' ability to raise revenue for infrastructure delivery which is essential for enabling growth – the objective of GfHG. The regulatory regime will need to consider the wider objective of enabling growth to not restrict council's delivery of infrastructure.
5. **Local government system capacity** – rates capping, simplifying local government, and resource management reform are all going to be implemented over the next few years resulting in significant changes to the local government sector and high resourcing requirements to engage with and implement them. Taituarā have estimated that implementation costs of resource management reforms for local government are estimated at more than \$860 million². They will face additional implementation pressures for development levies and simplifying local government and they will have limited ability to raise revenue as a result of rates capping. There is a real risk around successful implementation if councils do not receive support from central government.

Limitations and constraints on analysis

Choice of regulator made before design of regulatory regime

The Commerce Commission was agreed as the regulator for development levies in November 2025, prior to the design of both the regulatory regime and the broader development levies system. Consequently, the regulator's functions and powers were selected from those already established within the Commerce Commission, based on its existing expertise, which in turn limited the scope of assessed options. To effectively fulfil this new regulatory responsibility, the Commerce Commission will be required to build its capability and knowledge in local government regulation and development levies.

Time constraints of analysis

This analysis was prepared under significant time constraints to support Cabinet decisions required for April 2026, enabling legislation expected to be introduced [in August 2026] prior to the 2026 general election.

Limitations on public consultation

Public consultation has not been undertaken and there has been limited consultation with key stakeholders (HEAG and Property Council New Zealand) on the regulator component of the new system. There is limited information regarding the level of public support for the proposed policy, as well as the potential costs or impacts on other affected stakeholders.

There has been no consultation on recovery of the Commerce Commission's costs from beneficiaries (developers), there is a risk of opposition due to an extra charge to them.

² [Taituarā-submission-Planning-Bill-Natural-Environment-Bill-12-February-2026.pdf](#)

The regulatory regime was not included in the exposure draft, but an array of submitters provided feedback on proposal to have the Commerce Commission as the regulator for development levies. There was general support for having the Commerce Commission as the independent regulator for development levies to build confidence in the system and ensure consistency and transparency. It was also raised that the regulator's scope and purpose must be clearly defined to ensure that they do not undermine local democratic decision-making.

Engagement with local government

Tight timeframes Ministers set meant policy was being developed at pace leaving no time for engagement with territorial authorities and water organisations. Broader consultation with territorial authorities on these high-level proposals would have been beneficial before Cabinet decisions are made on the future direction of the system. However, this was not feasible within the available timeframe.

There will be opportunities for both the public and local government to participate through the select committee process. However, territorial authority participation may be constrained because of the number of reforms they are facing concurrently, including resource management reform, simplifying local government, rates capping, and development levies.

Limitations of the impact analysis

Given the compressed timeframes, data limitations, and lack of consultation (uncertainties around how councils may implement or respond to the proposals), DIA was unable to complete a full quantitative assessment of expected benefits. As a result, the analysis presented is largely qualitative.

Strength of the evidence

There are key uncertainties relating to the extent of un-monetised benefits and the details of implementation. However, we expect that overall, the regulation of the development levies system has net benefits relative to the status quo of no independent regulator.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager signature:	
Richard Ward General Manager Local Government Policy, Partnerships and Operations	
Hilary Joy General Manager Housing Market and Urban Performance	
15 April 2026	

Quality Assurance Statement

Reviewing Agency: Department of Internal Affairs	QA rating: partially meets
Panel Comment:	

The panel considers that the information and analysis summarised in the RIA and CRIS *partially meet* the quality assurance criteria.

The panel acknowledges that the authors worked to a constrained timeframe and under specific Ministerial direction, and note that these limitations have been strongly signposted in the RIA and CRIS. This limited timeframe also impacted the time available to carry out a comprehensive quality assurance assessment process.

Having reviewed the RIS document, the panel considered that a *fully meets* criteria could not be met. The authors list a significant number of assumptions about future funding availability and affected party behaviour as impacting on the implementation success of the proposals. The authors also noted a number of additional data limitations inherent in the analysis, driven in large part by the limited time available to develop the proposals.

This evidential uncertainty meant that the **convincing** and **complete** criteria could not be fully met. Additionally, the authors note that the specific proposals in the RIS (e.g. the proposed regulatory regime) and the CRIS were not consulted on, meaning that the **consulted** criteria could not be met. Accordingly, stakeholder feedback could not be considered, addressed or incorporated, further impacting on the rigour and comprehensiveness of the analysis.

Since the assumptions and the key limitations underpinning the analysis have been clearly set out, the panel considers that Ministers relying on the RIS can make a reasonably informed decision, which includes the data limitations and informational uncertainty influencing the analysis. Accordingly, we consider the RIS/CRIS partially meet the quality assurance criteria.

Section 1: Diagnosing the policy problem

Background context on the move to a regulated development levies system

Housing unaffordability

1. As outlined in the Regulatory Impact Statement: Going for Housing Growth - Improving Local Government Infrastructure Funding Settings housing affordability is a significant problem in New Zealand. High house prices driven by a lack of supply have dampened growth in our cities, impacted productivity, and led to wide a range of other negative economic and social outcomes.
2. 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).
3. In December 2024, Cabinet agreed to replace the development contributions system with development levies as part of GfHG Pillar 2 [ECO-24-MIN-0283]. Development levies will enable territorial authorities to better recover the costs of providing additional infrastructure capacity for growth.
4. Development contributions are charged to a developer and can only be spent on planned infrastructure that supports that specific development, this means that they cannot fund network infrastructure and ensure capacity is in place for unanticipated growth. Development levies will be used across a larger area (a levy area), 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 in the levy area. 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

area, as they sequence the provision of additional capacity to respond to growth. This allows flexibility to better fund unanticipated growth.

5. This RIS follows the Regulatory Impact Statement: Regulation of development levies which outlined the analysis and proposal to set up an independent regulator for the new development levies system. It demonstrated that 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, therefore, regulation would help mitigate associated risks of potential over-recovery and use of funds concerns.
6. Developers raised three main areas of concern about the new development levies system, they are:
 - 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); and
 - c. how to resolve disputes between developers and councils – and who should do this.
7. Officials have found no evidence of overcharging by councils and in fact there is widespread under recovery of the cost of infrastructure to support growth recorded across the country. The Productivity Commission's 2015 inquiry on Using Land for Housing found that development contributions are not accurately reflecting the costs of infrastructure required for growth and rates are being used to cover the remainder of the growth costs³.
8. On 17 November 2025, Cabinet agreed in principle to the Commerce Commission being the regulator for development levies and that Ministers of Housing and Local Government would report back to Cabinet in March/April 2026 with the details of the regulatory system [ECO-25-MIN-0192].
9. This RIS considers the role, functions, and powers of the Commerce Commission in regulating the development levies regime. It also considers the role of others in the regulatory regime for development levies, including development levies commissioners and Department of Internal Affairs (DIA)/Ministry of Cities, Environment, Regions and Transport (MCERT)
10. Attached is a CRIS that considers the options around funding of the Commerce Commission to carry out its role regulating development levies.

Defining the status quo

11. There is currently no specific scrutiny or independent regulator of how territorial authorities operate their development contributions regime. Oversight provisions in general are more broadly towards territorial authority planning and financial systems.
12. There is an existing three tier dispute resolution regime for development contributions, that includes:
 - a. **Reconsiderations** of a mistake made by a territorial authority or water organisation in the assessment of a development and calculation of the required development contributions.
 - b. **Objections** of individual development levies assessment to independent arbiter (development contributions commissioners).

³ New Zealand Productivity Commission. (2015). Using Land for Housing: Final report.

- c. **Judicial review** by a developer to challenge the development levies policy. Noting consultation process required for developing the development levies policy.
13. If no action is taken, then the existing broader oversight territorial authority planning and financial systems will continue as they do for development contributions. If there is a transition to development levies, with no added regulation it is expected that there will be more disputes raised by developers, and potentially judicial review, as everyone adjusts to the new regime.
14. Under all options water services (water supply and wastewater) would continue to be economically regulated under Part 4 of the Commerce Act 1986, which focuses on revenue sufficiency and service quality. Stormwater may also be designated into the system.
15. The New Zealand Transport Authority selects local roads to co-fund through the National Land Transport Fund and sets the associated service-level requirements.

Territorial authorities operate within the Local Government Act 2002 and the Public Records Act 2005

16. Territorial authorities operate within a wider regulatory regime, this section outlines the key components.
17. Local democracy is the primary accountability lever for territorial authorities' collective planning and financial decisions. Councils are subject to extensive statutory reporting and consultation requirements under the Local Government Act 2002. These processes require councils to explain and justify infrastructure investment decisions to their communities. If post-consultation investment decisions are unfavourable, voters have the option not to return elected members for another term.
18. The Department of Internal Affairs is the Government's primary policy advisor on local government. As part of its regulatory stewardship responsibilities, the Department collects information published in council Long Term Plans (LTPs), provides summary information to the Minister of Local Government, and publishes some information online including as council performance dashboards.
19. The Minister of Local Government has assistance and intervention powers under Part 10 of the Local Government Act 2002. These powers are intended for exceptional circumstances such as a serious failure in governance or management. Options available to the Minister range from requiring information to making Ministerial appointments. Appointees have scaled powers including to act on behalf of the Minister in assisting a local authority (Crown Review Team, Crown Observer, Crown Manager) or to act on behalf of the local authority (Commission). A list of matters relevant to determining what action to take, if any, is required to be regularly published in the *Gazette*. The latest version was published in June 2023.⁴
20. Territorial authorities are expected to balance maintaining long term financial sustainability (prudence) with responding to the needs of their current and future communities.
21. Under Part 6 of the Local Government Act 2002, the Local Government (Rating) Act 2002, and the Local Government (Financial Reporting and Prudence) Regulations 2014, local authorities must:

⁴ "Notice Regarding Ministerial Powers of Local Government Assistance and Intervention" (23 June 2023). *New Zealand Gazette*. <https://gazette.govt.nz/notice/id/2023-go2697>.

- a. manage their financial dealings prudently in a way that promotes the current and future interests of the community;
 - b. maintain balanced budgets;
 - c. publish a financial strategy that provides context to facilitate consideration of the impact of proposed expenditure on their services, rates, debts and investments;
 - d. collect revenue that is sufficient to cover expenditure on activities outlined in their long-term plans; and
 - e. publish standardised reporting on prudential spending benchmarks, including a balanced budget requirement, operational and debt control, and debt servicing.
22. Under Part 6 of the Local Government Act 2002 local authorities have obligations around planning. The primary method for outlining their intended activities and infrastructure to be delivered are their LTP which detail the services the local authority will provide over the next 10 years, the cost of those services, and other specified information.⁵ Key features of LTPs are the:
- a. infrastructure strategy that sets out how the local authority intends to manage its infrastructure assets over thirty years; and
 - b. revenue and financing policy that sets out policies for how the local authority will fund its capital and operating expenses.
23. Local authorities are held accountable to their communities through LTP consultation processes and at triennial elections. These processes provide opportunities for local authorities to align proposed budgets and rates increases with community expectations.
24. The Office of the Auditor-General (OAG) provides independent audit and assurance over local authorities' financial statements, long-term plans, and performance information. Its role is to provide Parliament and the public with assurance that territorial authorities are accounting properly for public resources and complying with statutory obligations. The OAG may identify systemic risks, weaknesses in financial management, or poor disclosure, but it does not assess the reasonableness of development contributions policies and decisions. The Auditor-General is required by law to issue opinions on councils' LTPs.⁶ They are also required to form an opinion on the consultation document that local authorities issue before they finalise their LTPs.
25. When operating their development contributions regimes, local authorities work within a regulatory regime set out in the Local Government Act 2002 (Part 8 Regulatory, enforcement, and coercive powers of local authorities – Subpart 5 Development contributions).
26. The overall reporting and accountability mechanisms in the Local Government Act 2002 will remain.
27. Provisions for record keeping and dispute resolution for development contributions also exist under section 17 of the Public Records Act 2005.⁷ Under the current regime, territorial authorities must have systems in place that ensure records are kept from when an application for consent/certificate or authorisation is received.

⁵ Local Government Act 2002, s 93.

⁶ Local Government Act 2002, ss 84(4) and 94.

⁷ Section 17 of the Public Records Act 2005 sets out territorial authorities must create and maintain full and accurate records of their affairs, in accordance with normal, prudent business practice.

What is the policy problem or opportunity?

28. The policy problem for this RIS builds on the problem from the first RIS, “that a move to a more flexible system 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 policy problem is how to design a regulatory regime that builds trust and confidence among territorial authorities, water organisations, developers, and communities by providing assurance that levies are set and used in a way that is transparent, predictable, and consistent.
29. Past distrust of the development contributions system has only been exacerbated by the increased flexibility inherent in development levies, compared to the current development contributions, which raises more uncertainty around growth-related decisions and the use of funds.
30. There is a balance to achieve with appropriate regulation. Light-touch regulation could look like insufficient oversight that perpetuates the distrust in the system, with overly prescriptive regulation that imposes disproportionate compliance costs or erodes local democratic accountability (specifically around local levels of service).

31.

Why is intervention required?

Cabinet agreed that the development levies system would be regulated in December 2024 [CAB-24-MIN-0494]. Cabinet also agreed in principle to the Commerce Commission being the regulator for development levies [ECO-25-MIN-0192]. The intervention, regulation, has already been agreed by Cabinet and now the design of the regulation needs to be determined. **Who are the stakeholders and what are their interests?**

32. The Commerce Commission will be the regulator, they will be tasked with an additional role on top of their existing regulatory role for other industries such as electricity and water services.
33. Territorial authorities and water organisations are the regulated parties. They have an interest in how regulatory oversight is designed and exercised, with respect to:
 - a. regulatory expectations and processes;
 - b. proportionality of compliance and reporting requirements;
 - c. preservation of elected members’ decision-making authority; and
 - d. alignment with existing local government processes, to avoid duplication or conflict.
34. Developers will pay development levies, so their interest in regulation is around the charges being set in a predictable, consistent, and transparent manner.
35. Ratepayers will likely face a lower share of growth-related costs because growth will be paying for growth.
36. Communities are affected by local infrastructure delivery decisions. They need to have trust and confidence in the regulatory system. The way that the regulator’s role is defined

can give it credibility that can extend to local authorities and, broadly, to the local government system

37. The Minister of Local Government will continue to be the steward of the local government system and have oversight of how the local government system is operating.
38. Existing oversight institutions, like the Office of the Auditor-General, are also stakeholders. The new development levies regulator will sit alongside the Office of the Auditor-General in providing assurance over council financial planning. Poorly specified roles for the new regulator could create ambiguity or potential overlap between agencies.

What objectives are sought in relation to the policy problem?

The Government is seeking to make growth pay for growth

39. The Regulatory Impact Statement: Going for Housing Growth - Improving Local Government Infrastructure Funding Settings examines how housing affordability is a significant problem in New Zealand. High house prices driven by a lack of supply have dampened growth in our cities, impacted productivity, and led to wide a range of other negative economic and social outcomes.
40. The primary objective of the development levies system outlined in that RIS is “enabling the growth-related costs of infrastructure to be better recovered from developers (or owners of new houses) by providing adequate funding and financing tools” in other words the principle of “growth pays for growth”.
41. The principles of development levies as outlined in the exposure draft of the Local Government (Infrastructure Funding) Amendment Bill are:
 - a. **Necessity** - development levies may only be required if the effects or cumulative effects of development within a levy area will create, or have created, a need for additional assets or assets of increased capacity for the provision of a leviable service:
 - b. **Sufficiency** - development levies should be set at a level that enables a territorial authority to recover the costs of capital expenditure necessary to service growth across a levy area over the long term:
 - c. **Proportionality** - if capital expenditure provides other benefits, such as by renewing existing assets, or improving levels of service, cost allocations to growth must be proportional to the additional growth capacity provided:
 - d. **Particularity** - development levy revenue must be used—
 - i. for the growth costs in the leviable service for which they were levied; and
 - ii. for the benefit of the levy area where levied development is being undertaken:
 - e. **Transparency** - territorial authorities must make available information that shows how development levies are being used to provide additional capacity—
 - i. in the leviable service for which they were levied; and
 - ii. for the levy area where levied development is being undertaken:
 - f. **Economic efficiency** - development levies should distribute growth costs in a manner that encourages the creation of efficient infrastructure networks.

Regulation of development levies

42. The objective is to have a well-designed regime that will mean the Commerce Commission has the powers, tools, and functions it needs to ensure development levies charges are predictable for developers, consistent across the country and for each development, and that there is transparency in how the charges are set and funds are used. A secondary

objective is to design of the regulatory regime is aligned with other regulatory regimes in New Zealand (particularly local government regulatory regimes) and it is simple and cost effective to operate.

43. The proposed purpose of regulation of development levies is to increase trust and confidence among territorial authorities and water organisations, developers, and communities by providing assurance that levies are set and used in a way that is transparent, predictable, and consistent.

What consultation has been undertaken?

44. Consultation about the regulatory design has only occurred with the Housing Expert Advisory Group (HEAG). HEAG was established by the Ministry of Housing and Urban Development (HUD) to support policy design and delivery of the GfHG work programme. HEAG recommended the Commerce Commission has the powers they have under Part 4 of the Commerce Act 1986⁸ to regulate monopolies.
45. The Property Council of New Zealand wrote to the Minister of Housing requesting the stand up of an independent regulator at the same time as the establishment of development levies.
46. The proposals were developed by both DIA and HUD, in consultation with MBIE. The Commerce Commission has provided technical advice.
47. Consultation on the exposure draft of the Local Government (Infrastructure Funding) Amendment Bill closed on 20 February 2026, with 56 submissions received. There were 32 submissions were from councils (including Tier 1 councils), 11 from developers and developer organisations, and 13 from other organisations and individuals.
48. The regulatory regime was not included in the exposure draft, but an array of submitters provided feedback on the proposal to have the Commerce Commission as the regulator for development levies because the, in-principle, Cabinet decision had been announced [ECO-25-MIN-0192]. The key points raised include:
 - a. General support for having the Commerce Commission as the independent regulator for development levies to build confidence in the system and ensure consistency and transparency.
 - b. The need for the regulator's scope and purpose to be clearly defined to ensure that they do not undermine local decision-making.
 - c. The need for standardised templates, clear rules, and consistent methodology.
 - d. Smaller councils raised concerns about administrative burden and proportionality.
 - e. Developers and development organisations called for regulator to ensure transparency on levy methodologies.
 - f. Desire for a clear dispute resolution regime.

Section 2: Assessing options to address the policy problem

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

49. The options will be assessed against the following criteria, which relate to the desired outcomes from Commerce Commission powers and functions:

⁸ Commerce Act 1986 (Part 4 – Subpart 3, 4, 5, 6, and 7, Subpart 12, and Schedule 7)

- a. **Predictability:** does the regulatory regime enable developers to anticipate how much they will need to pay and councils the income they will receive?
- b. **Consistency:** does the regulatory regime ensure territorial authorities and water organisation set and use development levies consistently by developer and across the country?
- c. **Transparency:** are regulatory processes and decisions clear, accessible, and transparent, and how is any intervention is triggered and explained?
- d. **Alignment:** aligns with local government and water services planning and financial management processes and timelines to not add excess burden on territorial authorities and water organisations and aligns with broader New Zealand regulatory design principles and institutional roles (including the OAG and Ombudsman).
- e. **Simple and cost-effective to operate:** is the regulatory regime administratively simple and does it minimise overall system costs for the Commerce Commission to operate?

50. The criteria are evenly weighted.

51. The criteria were chosen to build on the criteria from the first RIS on regulation of development levies and to align with the objective of this RIS.

Scope

52. The options in this RIS have been developed based on direction from the Minister of Local Government and the Minister of Housing regarding the Infrastructure Funding Settings pillar of the GfHG work programme.

OUT OF SCOPE:

- 53. Not having a regulator is not an option.
- 54. Regulation for all local government infrastructure funding, spending, and planning. Infrastructure includes water services, transport, reserves and community infrastructure.
- 55. Another organisation being the independent regulator is out of scope because Cabinet agreed that the Commerce Commission would be the regulator [ECO-25-MIN-0192]. This RIS investigates the specific functions and powers that the Commerce Commission would have to carry out its role as the regulator of development levies.

IN SCOPE:

- 56. Regulation of development levies.
- 57. The parties in scope of the regulatory regime will be all 67 territorial authorities and 18 water organisations (joint or single-council water services providers established outside of councils), making a total 85 regulated parties.
- 58. Some of these parties would choose not to charge development levies and would be almost costless to regulate. However, we expect the number of territorial authorities to charge development levies to be greater than the number that has chosen to charge development contributions, especially if the proposed rates capping system comes into effect.

What options are being considered?

59. A key constraint of the options identified and assessed is that the choice of who the regulator would be was made before design of regulatory regime. The Commerce

Commission was agreed as the regulator for development levies in November 2025, prior to the design of both the regulatory regime and the broader development levies system. Consequently, the regulator's functions and powers were selected from those already established within the Commerce Commission, based on its existing expertise, which in turn limited the scope of assessed options. To effectively fulfil this new regulatory responsibility, the Commerce Commission will be required to build its capability and knowledge in local government regulation and development levies.

60. Officials recommend a bespoke approach to regulation of development levies, which is tailored to the principles and objectives of the Local Government (Infrastructure Funding) Amendment Bill. This means that the regime would align with other local government regulatory regimes.
61. Officials do not recommend applying Part 4 of the Commerce Act 1986 to development levies.
62. The key reasons for this recommendation are:
 - a. Part 4 was designed to regulate monopoly services to promote outcomes observed in competitive markets, and its purpose and tools do not align with regulating development levies;
 - b. development levies are more akin to access charges – one-off or upfront payments for connecting to infrastructure network. They require a bespoke regime tailored to the principles and objectives of the Local Government (Infrastructure Funding) Amendment Bill; and
 - c. existing Part 4 tools have not been designed to regulate growth-related access charges, which is the focus of the levies.
63. DIA has worked with HUD, MBIE, and the Commerce Commission to identify what the components of the regulatory regime for development levies will be and what role the Commerce Commission would have and what existing arrangements or new arrangements could be established. The components of the regulatory regime were identified from a mixture of the existing arrangements for the development contributions regime (the dispute resolution regime) and functions that the Commerce Commission has for other industries that they regulate (information disclosure, setting methodologies, and performance rules).
64. Some functions that the Commerce Commission has for other industries (such as ring fencing and price-quality pathway regulation) were not chosen for the development levies system because they are designed for regulating all sources of revenue and all expenditure for an industry and not a single source of revenue and single form of expenditure which is what development levies are.
65. The components of the regulatory regime for development levies have been identified as:
 - a. monitoring through information disclosure to improve transparency;
 - b. setting the development levies calculation methodologies to improve predictability and consistency;
 - c. additional performance rules; and
 - d. disputes resolution.
66. We consider there to be three broad options to the distribution of these components, what the Commerce Commission takes on or what remains with the DIA/MCERT or as existing external arrangements:

- a. **Option 1** the Commerce Commission has a **monitoring role** using information disclosure.
 - i. In this option, the existing disputes resolution regime remains with an added reporting requirement to the Commerce Commission.
 - ii. DIA would develop the levy calculation methodologies.
- b. **PREFERRED: Option 2** the Commerce Commission has a role **monitoring**, setting the **levies calculation methodologies**, and having the ability to set additional **performance rules**.
 - i. In this option, the existing disputes resolution regime (para 11) remains with an improvement to how development levies commissioners are assigned to objections processes and an added reporting requirement to the Commerce Commission.
- c. **Option 3** the Commerce Commission has a role **monitoring**, setting the **levies calculation methodologies**, having the ability to set **additional performance rules**, and operating a **disputes regime**.

Option One – Commerce Commission monitoring

- 67. Under this option, the regulatory functions and powers of the Commerce Commission would be tightly focussed to monitoring the development levies regime and ensuring compliance with information disclosure requirements. This option represents the lowest level of regulatory intervention and serves as the counterfactual against which more comprehensive regulatory approaches can be assessed.
- 68. The levies calculation methodologies would be established in primary legislation by DIA/MCERT, with the Commerce Commission responsible for monitoring compliance with that methodology.
- 69. The Commerce Commission would have the powers to set information disclosure requirements and publish guidance.
- 70. Information disclosure is a form of economic regulation that promotes transparency by requiring regulated parties to publicly disclose certain information about their performance. The Commerce Commission takes that information, analyses it, and publishes it in a manner that allows comparison between regulated parties and analysis of trends over time.
- 71. The purpose of information disclosure regulation is to ensure that sufficient and accurate information is readily available to interested persons to assess whether development levies are set and used in a way that is transparent, predictable, and are consistent with the purpose and principles of the development levies regime.
- 72. The Commerce Commission will analyse the information disclosed to them alongside publicly available information and publish summaries. This will promote greater understanding of how individual regulated parties set and use development levies over time, and how those approaches compare between regulated parties. This scrutiny will lead to greater assurance that levies are being set and used in a way that is transparent, predictable, and consistent.
- 73. The Commerce Commission's role would be limited to receiving, analysing, and publishing this information. This approach would enable a degree of transparency for developers,

councils, and communities. However, the Commission would not have powers to direct changes to levy-setting practices or intervene in instances of poor performance.

74. The Commission would also issue sector guidance, including good-practice expectations for cost allocation, levy calculation approaches, and presentation of disclosed information. While guidance may support more consistent practices over time, it would not carry binding force and compliance would be voluntary.
75. The existing dispute resolution mechanisms (reconsiderations, objections to independent commissioners, and judicial review) would continue to apply.
76. There would be no added oversight by the Commerce Commission to influence disputes, however, they would be able to require information about disputes to be disclosed under the information disclosure regime.
77. Maintaining the existing disputes resolution regime will provide developers and territorial authorities with clear and familiar avenues for resolving disputes. The requirement to report all disputes will enable the Commerce Commission to develop a database and enable education of all parties involved. It will also inform guidance and future iterations of the information disclosure requirements and levy calculation methodologies. This maintains the balance of timely and cost-effective disputes resolution and promoting the desired outcomes of the regime more broadly.
78. Because the regulator doesn't have tools to respond to unlawful operation of a development levies regime, Ministerial intervention may be required on a case-by-case basis. The Department expects the regulator would notify the Minister of a council's non-compliance and the Minister will seek advice from MCERT on statutory intervention mechanisms. Intervention under Part 10 of the Local Government Act 2002 is a high-threshold response, with a specific definition of what constitutes a problem, and may not be suitable for all situations as it would be a disproportionate intervention.
79. Overall, this option maintains the flexibility and autonomy of territorial authorities and water organisations but provides only limited assurance to developers and communities. Transparency would increase relative to doing nothing, but without regulatory scrutiny or enforceable standards, the option offers minimal ability to address concerns about inconsistency, predictability, or the risk of over- or under-recovery in levy-setting practices. Without clear rules, territorial authorities and water organisations are likely to take a cautious approach to ensure they are not over-recovering, leading to lower recovery of the cost of providing infrastructure for growth. Having stronger tools and more assurance should give more confidence, more effective cost recovery in line with the objectives of GfHG and beneficiary pays principles.
80. This option would be the cheapest to implement as it is the lowest level of regulatory intervention.

Option Two – Commerce Commission monitoring, setting the levy calculation methodologies, and having the ability to set additional performance rules

81. This is the preferred option of Ministers and DIA.
82. This option is Option One (Commerce Commission runs an information disclosure regime and the existing dispute resolution mechanism) plus setting the levy calculation methodologies, having the ability to set additional performance rules.

83. Under this option, the Commerce Commission would take on an active regulatory role with a broader set of statutory tools than under the baseline information disclosure model.
84. Under this option, Commerce Commission will develop levies calculation methodologies. The overarching framework for the development levies regime would be in primary legislation (Local Government Act 2002) and detailed requirements around the levy calculation methodologies would be in secondary legislation developed and maintained by the Commerce Commission. The Commerce Commission would also be able to amend the levy calculation methodology.
85. The prescribed detailed methodological requirements for the multiple components of the development levies calculation include:
- a. how growth-related costs (growth costs) are calculated across six infrastructure classes: water supply, wastewater, stormwater, transport, reserves, and community infrastructure; and
 - b. how growth costs are aggregated across a levy area and reflect the distribution of costs and benefits over time; and
 - c. defining the units of demand to be used in levy calculation.
86. Where information disclosure identifies issues, the Commission would have a clear pathway to apply stronger regulatory measures, such as performance requirements to improve levy setting and application. Use of these enhanced tools would require Ministerial agreement.
87. Examples of performance requirements may include, but not be limited to:
- a. adopt a particular approach to calculating and assessing levies;
 - b. special reporting requirements;
 - c. to consult the Commerce Commission about certain kinds of decisions in setting development levies policies; and/or
 - d. that any disclosed information be verified by statutory declaration or certified as true and accurate.
88. Compliance and enforcement mechanisms would be in place under this regime to ensure that the Commerce Commission can direct territorial authorities and water organisations to comply with the requirements. The powers the Commerce Commission would have to assess compliance would include being able to require:
- a. a written statement of whether the supplier has complied with the requirement;
 - b. a report on the written statement that is signed by an auditor;
 - c. sufficient information to enable the Commission to properly determine whether the requirement has been complied with; and
 - d. a certificate confirming the truth and accuracy of any information provided.
89. In addition, the Commerce Commission has enforcement powers including:
- a. undertakings and enforcement of them;
 - b. requirements for paying pecuniary penalties;
 - c. orders to comply with information disclosure or performance regulation requirements;

- d. offences for not comply with information disclosure or performance regulation requirements; and
 - e. requirements for paying compensation.
90. Overall, this option provides a more robust and responsive oversight framework than information disclosure alone. It enables the Commerce Commission to actively shape levy-setting practices, intervene where issues arise, and improve system-level consistency. This approach is intended to strengthen trust and confidence across territorial authorities, water organisations, developers, and communities by ensuring that development levies are set and applied in a transparent, predictable, and consistent manner.

Option Three – Commerce Commission monitoring, setting the levy calculation methodologies, having the ability to set additional performance rules, and disputes resolution

91. This is Option Two except the Commerce Commission does individual disputes resolution.
92. Under this option, the existing dispute resolution mechanisms (reconsiderations, objections to independent commissioners, and judicial review) would be removed and replaced with a Commerce Commission-led disputes process.
93. The Commerce Commission would receive, investigate, and determine individual disputes. This could enable monitoring of emerging patterns and publish aggregated disputes analysis to improve transparency and guide future rule or methodology adjustments.
94. The Commerce Commission does not manage individual disputes between parties in other industries it regulates. Selecting commissioners to adjudicate individual development levy disputes would require capabilities (including knowledge of local circumstances) that differ substantially from the Commerce Commission's core strengths in economic regulation, competition analysis, and financial assessment.
95. As noted, there are likely to be 85 regulated parties which is significantly more than any other industry they regulate. Each territorial authority currently receives hundreds to hundreds of thousands of development applications a year, there is a lack of data about the volume of disputes they receive. The transition to a new regime is also likely to lead to more disputes as the parties learn the new regime. Therefore, having the Commerce Commission resolve disputes is expected to increase costs dramatically and for little benefit considering they have no expertise in dispute resolution in this form.

How do the options compare?

96. The table assesses each options using the criteria.

	Option One – Commerce Commission monitoring	Option Two – Commerce Commission monitoring, setting the levy calculation methodologies, and additional performance rules	Option Three - Commerce Commission monitoring, setting the levy calculation methodologies, additional performance rules, and disputes resolution
Predictability	+ Standardised levy calculation methodology set by DIA will enable predictability of charges to developers and revenue for councils. There is limited ability to intervene if there are compliance issues.	+++ Standardised levy calculation methodology set by independent regulator will improve predictability of charges to developers and revenue for councils. The Commerce Commission will be able to enforce compliance with requirements. Maintaining the existing disputes resolution regime (with some improvements) ensures there is a predictable approach to how disputes are resolved.	++ Standardised levy calculation methodology set by independent regulator will improve predictability of charges to developers and revenue for councils. The Commerce Commission will be able to enforce compliance with requirements.
Consistency	+ Standardised levy calculation methodology set by DIA will enable consistency across the country and for each development. There is limited ability to intervene if there are compliance issues.	+++ Standardised levy calculation methodology set by independent regulator will improve consistency across the country and for each development. The Commerce Commission will be able to enforce compliance with the methodology. Maintaining the existing disputes resolution regime (with some improvements) ensures consistency by continuing to utilise the existing development contribution commissioners experience and expertise.	++ Standardised levy calculation methodology set by independent regulator will improve consistency across the country and for each development. The Commerce Commission will be able to enforce compliance with the methodology.
Transparency	+ Information disclosure regime provides clear and transparent processes for monitoring, engagement, and development levies decisions, including public reporting on trends and risks.	++ Provides high transparency around monitoring, regulatory decisions, dispute resolution, and enforcement actions.	+ Provides high transparency around monitoring, regulatory decisions, and enforcement actions. This is lower than option two because having the Commerce Commission involved in disputes reduces transparency of the separation of the wider regulatory oversight role the Commerce Commission undertakes and the dispute resolution.
Alignment	0 Limited intervention so there is no overlap of Commerce Commission role with other regulators of local government.	++ Fits within the wider regulatory system of local government and water services with clear delineated roles. The use of existing dispute resolution regime maintains a familiar system with some added oversight by the Commerce Commission to improve transparency of the system.	- Having the Commerce Commission involved in individual disputes would impact their independence as a regulator of the development levies system. This approach does not align with how the Commerce Commission regulates other local government functions, such as water services delivery where disputes are managed by an independent organisation Utilities Disputes Limited.
Simple and cost-effective to operate	++ Most simple and cost-effective option, increased scrutiny of decisions around development levies but limited ability to intervene if there are compliance issues.	+ Costs of additional regulatory activity are offset by expected system efficiency improvements by reducing uncertainty.	- Costs of additional regulatory activity are offset by expected system efficiency improvements by reducing uncertainty. However, having the Commerce Commission involved in individual disputes is expected to be higher cost as they would likely have to set up a separate board to manage dispute resolution pushing this option to be less cost effective.
Overall assessment	+	++	+

Key for qualitative judgements:	
++	The option performs very well against the criterion
+	The option performs well against the criterion
0	The option has no material impact on the criterion
-	The option performs poorly against the criterion
--	The option performs very poorly against the criterion

Proactively released by the Department of Internal Affairs

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

Key limitations and assumptions

97. The Commerce Commission was agreed as the regulator for development levies in November 2025, prior to the design of both the regulatory regime and the broader development levies system. Consequently, the regulator's functions and powers were selected from those already established within the Commerce Commission, based on its existing expertise, which in turn limited the scope of assessed options. To effectively fulfil this new regulatory responsibility, the Commerce Commission will be required to build its capability and knowledge in local government regulation and development levies.
98. Public consultation has not been undertaken and there has been limited consultation with key stakeholders (HEAG and Property Council New Zealand) on the regulator component of the new system. There is limited information regarding the level of public support for the proposed policy, as well as the potential costs or impacts on other affected stakeholders.
99. There has been no consultation on recovery of the Commerce Commission's costs from beneficiaries (developers), there is a risk of opposition due to an extra charge to them.
100. The regulatory regime was not included in the exposure draft, but an array of submitters provided feedback on proposal to have the Commerce Commission as the regulator for development levies. There was general support for having the Commerce Commission as the independent regulator for development levies to build confidence in the system and ensure consistency and transparency. It was also raised that the regulator's scope and purpose must be clearly defined to ensure that they do not undermine local democratic decision-making.
101. There has been a level of uncertainty as to development levies regulator's powers and functions which has impacted our ability to assess the costs and benefits of the options. Ministerial direction on this was provided recently (early April).
102. The regulation of the development levies system is expected to deliver positive net benefits, particularly through improved allocative efficiency, greater certainty around charging, and through transparency preventing disputes. However, there are key uncertainties remain relating to the extent of un-monetised benefits and details of implementation. This lowers our evidence certainty and if the benefit were not to be realised then the costs of establishing regulation of development levies would exceed the benefits.
103. A key source of benefit is improved developer decision making from greater certainty over levy charges. In principle, greater transparency would allow developers to price land more accurately, reduce risk, and allocate capital more efficiently. It is, however, unclear whether this benefit will be realised in the context of wider reforms, such as Resource Management Reforms, simplifying local government, and rates capping. These wider changes to the system are likely to have transitional costs which may outweigh the benefits. The RIS does not attempt to quantify these efficiency gains⁹
104. Implementation choices (such as uptake, cost recovery, regulatory intensity) are expected to be managed to maximise cost-benefit outcomes in practice.

⁹ The Ministry for Regulation (MfR) suggest identifying how much the ongoing regulatory costs are as a proportion of all development contributions in recent years, to give a ball-park sense of percentage saving required to break even.

105. Given that the use of development levies is voluntary, uptake is important. Partial take-up risks increasing fixed regulatory costs per user and reducing cost-effectiveness. This risk is not currently reflected in the cost benefit analysis or options analysis.
106. The RIS has limited discussion of potential strategic responses (e.g. councils choosing not to charge levies to attract development) or whether the costs of the regime itself might influence uptake.
107. A next stage RIS/CRIS will need to clarify whether the levy methodologies establish a maximum recoverable amount, with discretion for councils to charge less, or whether both over- and under-recovery are treated as regulatory issues.
108. Regulatory oversight starts from a (generally less stringent) base with the option to escalate powers and functions over time.
109. More stringent regulation entails greater cost.
110. Commerce Commission cost estimates for the regulation of development levies, including establishing and on-going costs, are in a budget initiative, which is in process and their proposed role has expanded to include producing development levies calculation methodologies.

Analysis

111. As identified by the table, Option Two is likely to best address the problem, meet policy objectives, and deliver the highest net benefit. Option Two strikes the best balance between improving predictable, consistency, and transparency whilst still being simple and cost-effective to operate.
112. It improves developer's confidence by providing independent assurance that the assumptions and inputs underpinning levy calculations are reasonable and robust. It strengthens transparency through information disclosure and the Commerce Commission's analysis and insights - supporting continuous improvement in how territorial authorities and water organisations operate their development levies regimes.
113. It achieves the purpose of regulation of development levies is to increase trust and confidence among developers, territorial authorities and water organisations, and communities, by providing assurance that levies are set and used in a way that is transparent, predictable, and consistent while being proportionate simple and cost-effective to operate.
114. It creates a flexible and adaptive regulatory regime that can evolve over time as more data is disclosed and analysed, enabling future improvements based on evidence.
115. The proposed regulatory regime will support the objective of the GfHG programme that "growth pays for growth" and that there is more timely and efficient delivery of growth-related infrastructure to enable increased housing supply.
116. It integrates with existing local government oversight mechanisms in the Local Government Act 2002, including long-term plans, annual plans, financial and infrastructure strategies, and Ministerial intervention powers.
117. Option Two is the best value for money option, it complements and integrates with existing regimes while adding improved oversight and scrutiny of how territorial authorities and water organisations operate their development levies regimes.

118. Improving transparency and assurance through information disclosure and monitoring would be a key function that underpins any regulatory regime for development levies. This would enable 'sunlight' to be shone on the regulated parties' decisions.
119. Option Two provides the Commerce Commission with more stringent tools – the ability to set performance requirements and compliance and enforcement powers – to ensure the regime has sufficient teeth. This will support greater consistency and predictability as the Commerce Commission will have the appropriate powers to direct territorial authorities and water organisations across the country to improve the operation of the development levies regime to meet the objectives of “growth pays for growth”.
120. Under Option Two, the existing dispute resolution regime would transfer over to development levies with added oversight by the Commerce Commission. There would be the reporting requirement of all the disputes lodged and resolved which would enable dataset to be built on the number and distribution of disputes across the country and for the Commerce Commission to carry out analysis of these trends to try to improve the system overall and improve consistency across the country. This approach maintains independence between the regulator and the party involved in the individual disputes.
121. Option Three would be higher cost with the Commerce Commission implementing the dispute resolution regime in which they have no experience. Selecting commissioners to adjudicate individual development levy disputes would require capabilities (including knowledge of local circumstances) that differ substantially from the Commerce Commission's core strengths in economic regulation, competition analysis, and financial assessment.
122. Having the Commerce Commission involved in individual disputes would impact their independence as a regulator of the development levies system. To maintain independence from individual parties, the Commerce Commission does not resolve individual consumer or operator disputes in the other sectors it oversees. Instead, disputes in electricity, gas, and telecommunications are handled by independent bodies (for example, Utilities Disputes Limited or the Telecommunications Dispute Resolution Scheme). The Commerce Commission draws on information generated through these independent dispute resolution processes to support its system level regulatory scrutiny and decision making.
123. If the Commerce Commission were to manage individual dispute resolution they would need to set up some sort of independent board to manage this which would be costly. Minister's only sought advice on the dispute resolution regime in mid-March 2026, so there has not been any time to get estimates of the costs for this RIS.
124. There is a risk of undermining public confidence in the impartiality of both the dispute processes and the Commerce Commission's wider oversight role if they were to be involved in individual consumer or operator disputes.

Affected groups

Commerce Commission

125. Under a regulated development levies regime, the Commerce Commission would assume responsibility for setting and maintaining the development levies calculation methodologies, overseeing information disclosure, and providing structured guidance and oversight, delivering greater consistency and transparency than under an unregulated levies regime.

126. The Commerce Commission would face additional work to establish and operate the regime—developing methodologies, undertaking consultation, publishing determinations and guidance, running assurance and enforcement processes. This will increase its resourcing needs (particularly in the establishment phase) and require new technical, economic, and legal, capabilities to sustain effective oversight over time as new functions are added.
127. Ongoing operating costs for the regulator, include staff, systems, guidance, engagement, and reporting. One-off establishment costs are also expected.

Developers

128. Under a regulated development levies regime, developers would face a more predictable and transparent system than under an unregulated levy framework. Regulation would introduce standardised methodologies and clearer rules giving developers greater certainty and confidence about how levies are calculated and the costs they are likely to face. This would support more informed decisions about development feasibility.
129. The costs the Commerce Commission incurs regulating development levies will be recovered from the primary beneficiary (i.e., developers) so there will be an added cost on developers to fund the regulation.

Territorial authorities and water organisations

130. A regulated development levies regime would give territorial authorities and water organisations greater certainty and consistency than they have under the current unregulated development contributions arrangements. Clear rules, standardised methodologies, and regulatory guidance would improve transparency and reduce disputes, lowering reliance on judicial review.
131. However, regulation introduces new ongoing administrative and compliance costs associated with engaging with the regulator and preparing information, increasing costs for territorial authorities and water organisations. They would need to adopt new tools, meet assurance expectations, and participate in any formal enforcement processes established under the regime.
132. One-off familiarisation costs are expected as territorial authorities and water organisations adapt to the new regulatory role and processes. Costs are expected to vary by organisation size and complexity.
133. Improved certainty and predictability through clear guidance, early engagement, and a structured process when producing their development levies policies and operating their development levies regimes.
134. Taituarā have estimated that implementation costs of resource management reforms for local government are estimated at more than \$860 million¹⁰. They will face additional implementation pressures for development levies and simplifying local government and they will have limited ability to raise revenue as a result of rates capping.

Ratepayers

135. Under a regulated development levies regime, a more consistent and transparent approach to setting levies is expected to improve cost recovery from developers compared with an unregulated levy system. This would give territorial authorities and water

¹⁰ [Taituarā-submission-Planning-Bill-Natural-Environment-Bill-12-February-2026.pdf](#)

organisations greater certainty that growth-related infrastructure costs will be appropriately attributed to developments, rather than defaulting to general rates.

136. As a result, ratepayers are likely to face a lower share of growth-related costs than they would under an unregulated regime. This may reduce pressures on rates and support councils to maintain or improve service levels.
137. Indirect costs of territorial authorities' compliance will fall onto ratepayers as territorial authorities cannot levy for the compliance costs.

Communities

138. Under a regulated development levies regime, communities are likely to benefit from greater transparency and consistency in how growth-related infrastructure is funded, compared with an unregulated levy system. Clear methodologies and regulatory oversight can support more predictable funding of good-quality infrastructure, helping ensure that growth is better planned and serviced over time. Improved oversight may also reduce inequities in how costs are allocated across different areas.
139. A more consistent and transparent levy regime may also help support the goal of the GfHG programme of addressing the causes of the housing supply shortage, as developers would face more predictable cost signals than under an unregulated system. While levy costs may still be passed through in some form, increased certainty enables better planning and may improve long-term efficiency in infrastructure provision, which can contribute to more stable development costs.
140. Communities may experience transitional impacts as territorial authorities, water organisations, and developers adjust to the new regulatory requirements, particularly during establishment of the regime. These impacts could include under-recovery of growth costs through development levies, increased number of disputes some of which is covered by councils (falling on rate payers), and potentially delays in some developments as the parties learn the new system.

DIA/MCERT

141. Territorial authorities and water organisations will need support as they transition to the regulated development levies regime. This will mean additional work for DIA/MCERT to provide that support, and extra resources would likely need to be sourced. This change is occurring within a wider system of local government change, including resource management reform, simplifying local government, and rates capping. DIA/MCERT will need to monitor system-level impacts and support alignment between the regulation of this regime and wider local government funding and planning processes.
142. DIA/MCERT would also need to maintain an effective working relationship with the Commerce Commission. This would involve ongoing coordination to ensure regulatory decisions remain consistent with broader local government objectives, and to manage any system-level issues emerging from the Commerce Commission's determinations or oversight activities. However, care would need to be taken to uphold the Commerce Commission's independence of decision making as an independent Crown entity.

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

143. Yes

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

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Territorial authorities and water organisations using development levies	New ongoing administrative and compliance costs associated with engaging with the regulator and preparing information. One-off familiarisation costs are expected as councils adapt to the new regulatory role and processes. Costs are expected to vary by council size and complexity.	Medium (non-monetised)	Medium
Ratepayers	Indirect costs of territorial authorities' compliance will fall onto ratepayers as territorial authorities cannot levy for the compliance costs.	Low (non-monetised)	Medium
Communities	The costs of regulation may get passed on to house prices initially as the system transitions to the new regime.	Low (non-monetised)	Low
Developers	Added cost on developers to fund the regulation as the costs the Commerce Commission incurs regulating development levies may be recovered from the primary beneficiary, developers.	Medium (non-monetised)	Medium
Commerce Commission	One-off establishment costs	Monitised \$35,682,740 over four years (Commerce Commission estimates).	Medium ¹¹ (estimates were made before it was agreed that the Commerce Commission would set the levies calculation methodology – this estimate may now be too low, but it is
	Ongoing operational costs	Monitised Annual costs of \$11,230,750 (Commerce Commission estimates)	

¹¹ The Commerce Commission has used their experience of recent work on water services (both info disclosure and more intensive monitoring of Watercare) to estimate the fixed costs for establishing a new and novel regulatory regime.

Affected groups	Comment	Impact	Evidence Certainty
	Additional work to establish and operate the regime, increasing its resourcing needs (particularly in the establishment phase) and requiring new technical, economic, and legal, capabilities to sustain effective oversight over time.	Non-monitised	unclear what the cost will be after this expansion of the role as we have had no time to analyse the cost)
Department of Internal Affairs (DIA)/Ministry of Cities, Environment, Regions and Transport (MCERT)	Support and resources will be required from DIA/MCERT to effectively support territorial authorities and water organisations under a regulated regime.	Low (non-monetised)	Medium
Total monetised costs		\$35,682,740 for establishment \$11,230,750 annual operational cost	Medium
Non-monetised costs		Medium	Medium
Additional benefits of the preferred option compared to taking no action			
Territorial authorities and water organisations	A clear, standardised system would improve transparency and reduce disputes lowering reliance on judicial review, increasing time and resource efficiency. Realisation of benefits depends on council engagement and regulator capability.	High (non-monetised)	Low
Ratepayers	Will likely face a lower share of growth-related costs, reducing pressure on rates.		Low
Communities	A clear, standardised system could support predictability of infrastructure funding, helping ensure that growth is better planned and serviced over time.	High (non-monetised)	Low
Developers	Greater certainty and confidence on how levies are calculated and the costs they are likely to face, supporting more informed decisions about development feasibility.	High (non-monetised)	Low

Affected groups	Comment	Impact	Evidence Certainty
Commerce Commission	Clear statutory role and decision rights improve the regulator's ability to monitor the system, manage risks, and provide Ministers with timely, system-level intelligence. Reduced need for reactive intervention compared to doing nothing. Realisation of benefits depends on council engagement and regulator capability.	Medium (non-monetised)	Low
Department of Internal Affairs (DIA)/Ministry of Cities, Environment, Regions and Transport (MCERT)	Increased confidence that territorial authorities are operating within a fair system.	Medium (non-monetised)	Low
Total monetised benefits			
Non-monetised benefits		High	Low

Costs

144. Regulator establishment costs will be incurred by the Crown to fund Commerce Commission to establish the system (i.e., methodologies, consultation, determinations, guidance, assurance, and enforcement), requiring additional resourcing and new technical/economic/legal capability.
145. Ongoing operational costs of the regulator will be borne by developers, as the Commerce Commission's regulatory costs are recovered from the primary beneficiary (developers).
146. Costs on regulated parties of a new regulatory regime will be borne by territorial authorities and water organisations (and indirectly by ratepayers) from engaging with the regulator and preparing/providing required information.
147. Central agency implementation and system-stewardship costs will be incurred by the Department of Internal Affairs (DIA)/Ministry of Cities, Environment, Regions and Transport (MCERT) (when established) to support sector transition and monitor/alignment with wider local government reforms.

Benefits

148. The preferred option (two) is expected to result in improved trust and confidence in the development levies system. Clear rules, standardised methodologies, information disclosure, and guidance will improve transparency, consistency, and predictability in how

development levies are set and applied and how funds are spent. This is expected to reduce disputes and lowers reliance on judicial review.

149. Regulatory oversight and clear methodologies support more predictable funding of infrastructure, enabling better planning and sequencing of growth, and reducing inequities in how costs are allocated across areas and projects.
150. Increased certainty supports better long-term planning and can improve the efficiency of infrastructure provision over time, contributing to more stable development costs.
151. Standardised methodologies and clearer rules increase certainty and confidence for developers about levy calculations and expected costs, supporting more informed decisions about development feasibility.

Balance of benefits and costs

152. Overall, option has net benefits relative to the other options. The benefits are primarily driven by increased certainty, transparency, and consistency in how development levies are set and applied, and by improved oversight of cost allocation. These gains support more equitable attribution of growth-related infrastructure costs, reduce disputes, and enable better long-term planning and investment decisions.
153. While the regulation of the development levies system introduces new compliance, regulatory, and transitional costs for councils, developers, and MCERT. These costs are mitigated by improvements in the operation of the development levies system, as a result of standardised methodologies, clear rules, and guidance, ensuring “growth pays for growth” and a reduction in numbers of disputes. Overall, the improved efficiency, predictability, and fairness of outcomes are expected to outweigh the additional costs over time.
154. The evidence certainty of the benefits is low, this is due to the pace of the policy development which has meant there has been very little consultation and time to research widely. This is a major limitation of the analysis.

Section 3: Delivering an option

155. If Cabinet agrees to the new functions and powers for the Commerce Commission to regulate development levies implementation, legislation will be required to establish its role. This legislation will expand the Commission’s remit and define its functions in relation to development levies. Provisions to establish the Commerce Commission functions and powers will be included in the Local Government (Infrastructure Funding) Amendment Bill, which is proposed for introduction in August 2026.

Implementation will involve:

156. DIA/MCERT leading overall stewardship of the regime and supporting territorial authorities and water organisations through transition
157. The Commerce Commission preparing information disclosure requirements, developing, consulting on, and setting the levies calculation methodologies, and establishing regulatory functions once authorised by legislation.
158. Territorial authorities, water organisations, and developers preparing to operate within the new regulated development levies regime, including developing new development levies policies, applying new levies calculation methodologies in their local contexts,

understanding new disclosure requirements, and aligning internal systems new requirements.

159. Cross-agency coordination (the local government functions of DIA, HUD, MfE, and MoT will form MCERT, and will need to collaborate with MBIE, Treasury, and others) to manage sequencing alongside other major reforms.
160. The implementation process is to be phased. Initial regulatory functions will focus on information disclosure and setting levies calculation methodologies, with further tools such as performance requirements added over time. This graduated approach allows for system maturity and stakeholder adaptation.

Who will implement it:

DIA/MCERT

161. DIA/MCERT will lead the progress of the Local Government (Infrastructure Funding) Amendment Bill through parliament, including proposed introduction in August 2026, select committee after the November 2026 election, and expected enacted in Q3 of 2027.
162. DIA/MCERT will lead implementation across the local government system, provide guidance to territorial authorities and water organisations, coordinate with other reform workstreams, and advise Ministers on transition issues.
163. DIA/MCERT will oversee the Development Levies Commissioners and their appointment.

Commerce Commission

164. The Commerce Commission will act as the economic regulator. Once empowered through legislation, it will:
 - a. produce and consult on the development levies calculation methodologies;
 - b. establish information disclosure requirements;
 - c. set up compliance and enforcement processes; and
 - d. provide ongoing oversight of development levy practices across territorial authorities and water organisations.
165. The Commerce Commission is relying on Budget 2026 decisions to receive funding for undertaking its regulatory role.
166. The Commerce Commission requires authorisation to undertake statutory consultation the levies calculation methodologies and information disclosure requirements.
167. Initial regulatory functions will focus on setting the development levies methodologies and information disclosure, with further tools such as performance requirements turned on and used when needed. This graduated approach allows for system maturity and stakeholder adaptation.

Territorial authorities and water organisations

168. Territorial authorities and water organisations will implement the development levies regime, including drafting and consulting on new development levies policies and incorporating them into their financial and planning systems, applying new levies calculation methodologies in their local contexts, understanding new disclosure requirements, and aligning internal systems new requirements.

169. Territorial authorities and water organisations would be able to begin setting development levies policies after enactment and publication of the detailed methodology for calculating development levies.

Central government agencies

170. DIA will need to do work to support implementation of an oversight body including the legislative change process. DIA, HUD, and MBIE will also have a role supporting the Commerce Commission through the service design and remaining abreast of the implementation work to ensure that it aligns with the wider reforms.
171. The local government functions of DIA, HUD, MfE, and MoT will form MCERT, and will collaborate with MBIE, Treasury, and others to support policy alignment, cost-recovery analysis, and cross-reform integration.

Implementation risks:

Legislative timing

172. The timeline to introduce the Bill in August 2026 is extremely compressed.
173. Any slippage risks missing introduction before the 2026 election.
174. Legislative delays would push commencement and delay the regulator's ability to prepare information disclosure and levies calculation methodologies, delaying territorial authorities and water organisations producing their first development levies policies and being able to charge developers to fund growth infrastructure.

Regulator readiness and authorisation

175. The Commerce Commission is taking on a new function that will require resourcing and developing new technical expertise.
176. The Commerce Commission will need legislation to be in force, with the necessary powers having taken effect, before they can undertake statutory consultation on a levies calculation methodology and information disclosure requirements.
177. The Commerce Commission could work with policy officials at DIA/MCERT ahead of commencement to develop, test, and engage on a draft methodology and information disclosure requirements during 2026/27. This will enable a draft methodology and information disclosure requirements to be published soon after commencement and provide territorial authorities and water organisations with a reasonable indication of what will be required to produce their development levies policies and comply with information disclosure requirements.
178. There are risks with the Commerce Commission consulting before they have the statutory powers to do so. For instance, there could be limited engagement as developers or territorial authorities may not see the process as legitimate, and the Bill could change during select committee rendering engagement before it passes irrelevant or insufficient.
179. Following commencement of the Bill, there will be an opportunity for the Commerce Commission to formally consult on the draft methodology and information disclosure requirements.

Compressed consultation and methodology development would impact how well the methodology is developed and tested and confidence of territorial authorities, water organisations, and developers have in it. *Funding and cost-recovery*

180. The Commerce Commission's ability to set levy calculation methodologies and information disclosure requirements is contingent on funding decisions through Budget 2026. Ongoing regulatory costs are will be cost-recovered (from developers). The Stage 1 CRIS below outlines analysis around this.
181. Uncertainty over funding decisions affects the Commerce Commission's ability to plan resourcing.
182. Cabinet decisions will influence Budget 2026 design. Treasury prefers clarity on cost-recovery before finalising funding.

Alignment with wider reforms

183. Rates capping will impact councils' ability to raise revenue to fund infrastructure and resource management reform will make planning more flexible so councils will be expected to deliver more infrastructure to support development over a wider area.
184. Councils will need access to this more flexible funding tool to deliver infrastructure to support these developments. Regulatory pressure on development levies and rates capping may restrict councils' ability to raise revenue for infrastructure delivery which is essential for enabling growth – the objective of GfHG.
185. The regulatory regime will need to consider the wider objective of enabling growth to not restrict council's delivery of infrastructure.

Local government system capacity

186. There are significant interactions with other major reforms planned for implementation in 2028–2029, including:
- a. resource management reform;
 - b. simplifying local government;
 - c. rates capping;
 - d. water services reform; and
 - e. building consent and emergency management reforms.
187. All reforms converge around local government elections in October 2028, followed by several major system changes becoming operative in mid-2029 (mandatory rates cap, regional reorganisation plans, full commencement of the RM system). This creates cumulative pressure on councils and increases the risk of implementation bottlenecks.
188. Councils will need to:
- a. develop new development levies policies;
 - b. adapt to a new planning and regulatory environment;
 - c. operate under new rates-cap constraints; and
 - d. manage internal reorganisation and limited revenue-raising capacity.
189. These concurrent pressures increase the risk of inconsistent or delayed uptake of the regulatory regime.

190. Taituarā have estimated that implementation costs of resource management reforms for local government are estimated at more than \$860 million¹². They will face additional implementation pressures for development levies and simplifying local government and they will have limited ability to raise revenue as a result of rates capping. There is a real risk around successful implementation if councils do not receive support from central government.

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

191. DIA/MCERT will monitor the implementation of the development levies regime and its regulation as part of their stewardship of local government.
192. DIA/MCERT will monitor the implementation of Commerce Commission's regulatory role for development levies because the regime will be in the Local Government Act 2002.
193. Territorial authorities will continue to be subject to increased information disclosure under changes anticipated to be made under the Local Government (System Improvements) Bill and associated regulations, once they enter into effect.
194. The Commerce Commission will monitor territorial authority and water organisations compliance with regulatory requirements under the development levies regime.
195. DIA/MCERT and the Minister of Local Government would continue to be the stewards of local government and if issues arise that constitute a problem under Part 10 of the LGA, then the Minister of Local Government could intervene.

¹² [Taituara-submission-Planning-Bill-Natural-Envirnment-Bill-12-February-2026.pdf](#)

Stage 1 Cost Recovery Impact Statement: Development Levies Regulation

1. This stage one Cost Recovery Impact Statement (CRIS) considers whether the cost recovery of Commerce Commission regulation of development levies system is justified. This CRIS:
 - a. builds on Part One of 'Regulatory Impact Statement: Regulation of Development Levies' that outlined the analysis and proposal for an independent regulator; and
 - b. accompanies Part Two 'Regulatory Impact Statement (RIS): Regulation of Development Levies - functions and powers' of the Commerce Commission. This CRIS should be read alongside the Part Two RIS.
2. If cost recovery is agreed to by Cabinet, a stage two CRIS will undertake more detailed analysis and inform development of cost recovery regulations.
3. To note, this CRIS has been prepared under considerable time constraints, with no consultation with affected parties.

Status quo

Development levies and regulatory oversight

4. Development contributions are a one-off charge paid by developers to territorial authorities to recover the costs of providing additional infrastructure capacity for growth.
5. The current development contributions regime persistently under-recovers the true costs of growth infrastructure investment due to a mismatch of the planning system and funding for long term infrastructure investment. This has led to territorial authorities relying on rates revenue to cover the shortfall, creating disincentives for ratepayers and communities to support growth, and enabling some developers to lock in lower and/or uncoded infrastructure charges through un-sequenced or unplanned development.
6. Cabinet agreed to replace development contributions with a new more flexible approach to charging developers, the development levies system in December 2024 [ECO-24-MIN-0283].
7. Development contributions are charged to a developer and can only be spent on planned infrastructure that supports that specific development, this means that they cannot fund network infrastructure and ensure capacity is in place for unanticipated growth. Development levies are a more flexible tool as they can be collected across a larger area (a levy area), 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 in the levy area. Councils will be able to spend levy funds collected in one part of a levy area, for the benefit of another part of the levy zone, as they sequence the provision of additional capacity to respond to growth. This allows flexibility to better fund unanticipated growth.
8. Cabinet agreed in principle to establish the Commerce Commission as the independent regulator of the development levies regime in November 2025 [ECO-25-MIN-0192]. Officials have advised the purpose of regulated goods or services (Part 4) in section 52A of the Commerce Act 1986 does not align with regulation of development levies, and Ministers have agreed to a bespoke regime tailored to the principles of the Local Government (Infrastructure Funding) Amendment Bill (the Bill) [LG202510156]. Ministers also agreed regulation should be housed within the Local Government Act 2002 and progressed through the Bill [LG202510156].

9. Cabinet invited a report back on regulation of development levies, including costs and funding in March/April 2026. This Stage 1 CRIS supports that report back.

Current regulatory arrangements

10. As noted above in the RIS, there is no direct regulatory arrangements for development contributions, however, there is a wider regulatory regime for local government planning and funding and financing. There is an existing three tier disputes regime for development contributions.

Proposed new regulatory regime

11. The proposed purpose of regulation of development levies is to increase trust and confidence among territorial authorities and water organisations, developers and communities, by providing assurance that levies are set and used in a way that is transparent, predictable, and consistent.
12. The objective is to have a well-designed regime that will mean the Commerce Commission has the powers, tools and functions it needs to ensure development levies charges are predictable for developers, consistent across the country and for each development, and that there is transparency in how the charges are set and funds are used. A secondary objective is to design of the regulatory regime is aligned with other regulatory regimes in New Zealand (particularly local government regulatory regimes) and it is simple and cost effective to operate. The Commerce Commission will incur costs and require ongoing funding to fulfil its functions. Cost recovery would be a new charge. Legislative changes will be required to give the Commerce Commission the statutory authority to charge for its regulatory functions. Enabling provisions could be housed in the Local Government Act 2002 along with the relevant regulatory provisions.
13. Provisions will need to enable the setting of cost recovery regulations (i.e., through Order in Council), potentially like s201 of the Water Services Act 2021, s53 of the Building Act 2004, or section 53ZE of the Commerce Act 1986. Primary legislation will need to set out the scope and may include necessary considerations and optional criteria for inclusion in regulations.
14. Enabling provisions will also need to set out who administers cost recovery. For example, levies under s201 of the Water Services Act 2021 are made on the recommendation of the Minister of Local Government but payable to the water services regulator; building levies are payable to the chief executive of the Ministry of Business, Innovation and Employment; and levies under the Commerce Act 1986 are payable to the Minister of Commerce and Consumer Affairs. For administrative efficiency, provisions should be informed by existing arrangements involving the Commerce Commission.
15. Including suitably enabling provisions will allow cost recovery regulations to be informed by a Stage 2 CRIS.

Policy rationale - Why a user charge? And what type is most appropriate?

16. To support the report back to Cabinet, this stage one CRIS considers at a high level whether cost recovery of regulation of development levies is justified in principle against the guidance and principles set out in Treasury's 2017 guidelines.¹³ Treasury principles include

¹³ Treasury's *Guidelines for Setting Charges in the Public Sector: April 2017*.

authority, effectiveness, efficiency, transparency, consultation, equity, simplicity and accountability.

What issue is regulation addressing?

17. Development levies will be inherently more flexible than development contributions to achieve policy objectives and outcomes.¹⁴ This can create variability, inconsistency, and governance risks for the system. Developers have consistently advocated for an independent regulator to mitigate the potential risk of territorial authorities setting unfair charges or overcharging the growth share of costs.
18. Independent regulatory oversight is intended to provide assurance that development levies are set and used in a way that is transparent, predictable, and consistent, including consistent with the legislative requirements and guiding principles. This will provide developers with trust and confidence in the development levies system. This purpose could therefore be considered as supporting an effective system first and mitigating any actual or potential wrongdoing/risks second. There is no evidence of widespread wrongdoing but the regulatory regime addresses developer concerns around overcharging.

Key assumptions

19. A Budget Initiative [in process] underpins the Commerce Commission estimate of costs as set out in the RIS/CRIS of \$35.7m to establish the independent regulator and \$11.2m as annual operating costs for the regulatory oversight.
20. The Budget Initiative reflects largely establishing and implementing a new regulatory regime, which is difficult to scale. It reflects the best available assumptions to enable submission within the budget timeframes.
21. The Commerce Commission has used their experience of recent work on water services (both info disclosure and more intensive monitoring of Watercare) to estimate the fixed costs for establishing a new and novel regulatory regime.
22. The Budget Initiative assumes the regulatory design and development of legislative instruments are needed before the new oversight function can 'go live' for entities seeking to levy developers.
23. While levies could technically be introduced first without oversight, this would undermine confidence, expose stakeholders to uncertainty, and change how they approach collaboration and implementation of the new development levies policy.
24. If Cabinet considers that stakeholder support for the development levies policy is contingent on effective oversight, the costs of deferring would include the wider benefits from the development levy policy.

Key limitations

25. The pace of policy development has meant that estimates of cost had to be made before Ministerial decisions had been made about the Commerce Commission's role and functions to undertake regulation of development levies.
26. There has been limited consultation (only with HEAG and PCNZ) about the design of the regulatory regime.

¹⁴ Development levies will aggregate growth costs over a wider 'levy area' and loosen the tight 'causal nexus' that links additional demand from developments with specific planned growth infrastructure capital expenditure.

27. There has been no consultation on recovery of the Commerce Commission's costs from beneficiaries (developers), there is a risk of opposition due to an extra charge to them.

Benefits and third-party cost recovery or Crown funding

28. Understanding the benefits and characteristics of a good or service can help to guide whether cost recovery is justified, including identifying whether a good or service is a public, private, merit or club good.
29. The expected benefits of regulatory oversight are set out in the table below:

Beneficiary group		Benefits
Main beneficiary	Developers	- Increased certainty around the application and spending of development levies. - Increased predictability about growth infrastructure charging. - Reduced 'need' to challenge or dispute charges. - Greater assurance enables more informed and confident land purchase and development decisions to realise financial gain (i.e., development levies legitimate portion of the 'cost stack').
	Territorial authorities (including water service providers/ organisations)	- Assurance that policies are compliant, financial assumptions are appropriate and costs are apportioned fairly between growth and non-growth. - Reduced risk of challenge or dispute. - Increased efficacy of development levies will improve capital cost recovery.
Secondary beneficiaries	Ratepayers (existing communities)	- Less contribution towards the cost of new growth infrastructure, potentially resulting in lower rates bills and/or increased services and other infrastructure from territorial authorities. - Enables greater accountability and more informed voting.

30. Developers are the main beneficiaries of the proposed regulatory regime, with the regulator to provide independent oversight and scrutiny. This will better enable informed development feasibility assessments and investment decisions, supporting developers to realise private financial benefit. Developers, responding to market demand, drive demand for capital investment in growth infrastructure and will be the main 'users/payers' of development levies.
31. The regulatory regime will benefit territorial authorities (and water organisations)¹⁵ through clearer requirements and expectations, improved legitimacy and reduced exposure to challenge. As the regulatory regime supports an efficient and effective development levy regime, it can be considered as indirectly supporting financial benefit for territorial authorities through improved cost recovery of growth costs. As this benefit is not a direct outcome of the regulatory regime, territorial authorities are considered secondary beneficiaries; the same applies to ratepayers.
32. Similarly, the regulatory regime could be considered as supporting broader benefits to the public and Crown. However, these benefits are primarily the outcomes of the development

¹⁵ Territorial authorities may decide to transfer water infrastructure and service provision to water organisations in accordance with the Local Government (Water Services) Act 2025; the Bill will enable water service providers/organisations to set and charge development levies. For the purposes of this CRIS, 'territorial authorities' is intended to capture water service providers and water organisations unless otherwise specified.

levy regime or Going for Housing Growth programme. Benefits include for example, better investment in capital and operational infrastructure costs, improved housing supply and affordability, and wider economic performance gains. While these benefits could be material, they are considerably more diffuse and likely to accrue over a much longer timeframe than those directly affected by regulatory oversight. It would be difficult to link these benefits directly to outputs and costs of the regulatory regime.

Economic characteristics – public, private, merit or club good?

33. Based on the above, regulatory oversight of development levies could best be characterised as a club good because the direct benefits are excludable, primarily accrue to identifiable users and do not diminish with use.¹⁶ Key features include:
- a. Developers drive demand for council provision of growth infrastructure through resource and building consents and private plan changes.
 - b. Developers are better enabled to realise direct financial benefits.
 - c. It is expected that there will be 85 regulated parties comprising the 67 territorial authorities and 18 water organisations (joint or single-council water services providers established outside of councils). Some of these parties would choose not to charge development levies and would be almost costless to regulate. However, we expect the number of territorial authorities to charge development levies to be greater than the number that has chosen to charge development contributions, especially if the proposed rates capping system comes into effect.
34. Crown funding would socialise the costs of primarily excludable benefits directly attributable to identifiable private beneficiaries while the public and Crown gain indirect and untimely benefits. Cost recovery or funding through general taxation is inconsistent with growth pays for growth.¹⁷

For these reasons, third-party funding is considered justified in principle.

Nature of the regulator's output and incentives

35. Understanding the regulator's outputs is an important way of ensuring a future cost recovery regime is transparent and appropriately links outputs, costs and charges. Outputs should be tied to policy outcomes to be considered reasonable costs to recover.
36. The table below summarises the regulator's expected functions, outputs and contribution to policy objectives.

Broad¹⁸ function	High-level outputs	Contribution to objectives / outcomes
Establishing the system (primarily capital)	Building relationships with regulated parties – establish ongoing trust-based relationship with territorial authorities and water organisations.	Supports early engagement, understanding and reduced likelihood of non-compliance.

¹⁶ Treasury April 2017 *Guidelines for Setting Charges in the Public Sector* set out goods and services can be grouped based on two economic characteristics, excludability (i.e., can people be prevented from using it?) and rivalry (i.e., does one person's use reduce another's enjoyment/benefit?).

¹⁷ Note the Crown is currently not required to pay development contributions as the LGA02 does not bind the Crown.

¹⁸ LG202510156 and LG202510719 refers.

Broad ¹⁸ function	High-level outputs	Contribution to objectives / outcomes
	Communication and education about expectations – support understanding of compliance.	Supports compliance and expectations, reducing need for enforcement.
	Setting development levy calculation methodologies – develop methodology with input from regulated parties.	Enables consistency, predictability and fairness in setting of development levies, supporting a credible and trusted system.
Regulating the system (primarily operational costs)	Information disclosure regime – require disclosure, analyse disclosure information and publish summaries to promote transparency and comparability.	Promotes transparency and accountability by enabling scrutiny, comparability and informed decision making by developers.
	Compliance with existing requirements – monitor and compel compliance with requirements in legislation.	Ensures legislative requirements are met, supporting system integrity and confidence.
	Extra rule making powers – set additional requirements through determinations with Ministerial agreement.	Enables flexibility to respond to issues, clarify requirements or address gaps, ensuring an effective and durable system.
	Enforcement actions – take action using the regulatory toolkit where necessary.	Credible backstop powers to deter non-compliance and ensure obligations are met if earlier interventions are insufficient.

37. Ongoing ‘regulating the system’ outputs are required because territorial authorities will review and set new development levies policies at least once every three years – this means ongoing rounds of information disclosure and analysis are necessary. However, relatively enabling legislation and regulations will allow a future regime to adjust outputs and costs as necessary, as the new development levies system beds-in and expectations on the amount and share development levies become clearer.
38. Most costs associated with the above outputs will likely be direct costs (e.g., staff remuneration) as it is expected the regulator will require significant inhouse local government, infrastructure, and economic analysis expertise to fulfil the above functions. Staffing costs will also include indirect or overhead costs such corporate services, IT, or physical office utilities.
39. Performance metrics and reporting should apply to the regulator to demonstrate efficiency and value for money in an open-book manner. This detail will need to be worked through and set out in the second stage of the CRIS and once regulator functions, outputs and costs are finalised.

Considerations for recovering establishment and/or ongoing costs

40. Outputs during establishment (i.e., 2027-2028) can largely be considered one-off capital costs. For example, once relationships and expectations are established, they will be maintained through ongoing operations, and if updates to the methodology are identified

through information disclosure/analysis, the regulator will be empowered to make updates. If this occurs these costs to the regulator should be recoverable.

41. Recovering establishment costs would be inconsistent with the principles of justifiability and equity because:
 - a. establishment outputs are not outputs of 'regulating' the system and therefore there would be less transparency with user charges; and
 - b. charging would allocate costs to early adopters and disincentivise a timely transition.
42. The transition period (i.e., 2027-2030) captures the above one-off capital costs and assumes two years of some level of operational costs as territorial authorities adopt development levies and phase in development levy charges. Determining justified costs and equitable charges during this period would be particularly difficult and require a complex calculation and apportioning methodology that is readjusted as every territorial authority adopts development levies. This would reduce certainty in the initial years and could result in under or over recovery, or a regime that is inefficient and more costly to administer.
43. **For these reasons it is recommended that Crown funds the establishment costs,** which could in part account for indirect benefits to the public and Crown. This means that **cost recovery from third parties is considered justified in principle primarily for ongoing operational costs** and would be consistent with the principles of equity and justifiability.

Incentives

44. Cost recovery of the above ongoing regulatory outputs would result in the following incentives:
 - a. Developers would be incentivised to:
 - i. Support an efficient regulatory system (i.e., would not seek high level regulatory interventions as they would come at a higher cost that they would have to cover)
 - ii. Accept development levies charges as legitimate, reducing challenges.
 - iii. Reflect charges in the 'cost stack' of a development investment and pass costs on through sale (as discussed below this would be expected to have a negligible impact on house prices).
 - iv. 'Shop around' for development opportunities that won't attract cost recovery charges, although this would be expected to have relatively marginal impact.¹⁹
 - b. Territorial authorities would be incentivised to:
 - i. Improve development levies resourcing and/or capability.
 - ii. Act transparently and in compliance with the legislation.

¹⁹ These incentives already exist. Developer's decisions are largely driven by development economics. Territorial authorities that do not currently charge development contributions either use an alternative funding mechanism such as financial contributions under the Resource Management Act 1991, or have such low levels of growth from low demand or poor development economics they do not need to invest in growth infrastructure. Note, financial contribution charges will not be available for growth infrastructure in the new system.

- iii. Cooperate with the regulator to reduce the need for additional regulator resource and associated costs.

Full or partial recovery

- 45. Treasury guidance indicates that full cost recovery is generally appropriate where services exhibit club-good characteristics however, there may be some circumstances where full cost recovery may undermine policy objectives.
- 46. **Full cost recovery is justified in principle** as it is consistent with the principles of beneficiary-pays, growth pays for growth and is not expected to materially undermine development levies and Going for Housing Growth outcomes (i.e., improved housing supply) for reasons discussed below.
- 47. Full cost recovery will provide strong transparency, accountability, and efficiency incentives for the regulator and those charged. That is, the regulator would be disincentivised from charging for unrelated outputs and over resourcing/overcharging. The charges will need to be developed in an open book manner, requiring the regulator to demonstrate a link between composition of charges (i.e., inputs) and level of service provided. The regulator will also be incentivised to act independently and with credibility to maintain its effectiveness as regulator.
- 48. **Partial cost recovery may be justified in principle** if the broader benefits attributable to the public and Crown are considered material and/or to account for system stewardship improvements resulting from the regulatory regime. However, as discussed above it would socialise the costs of direct benefit. Further, Crown funding would weaken efficiency, accountability, and transparency incentives on the regulator compared to a fully cost-recovered regime.
- 49. A key complicating factor that will require further analysis through a second stage CRIS is the variable and non-fixed nature of development levies and the regulator's outputs, that is:
 - a. development demand (and therefore demand for growth infrastructure provision) is subject to economic volatility or market cycles, this could increase the relative complexity of development levies policies (e.g., including high-cost overlays) and information disclosure requirements and costs; and
 - b. territorial authorities are not legislatively required to adopt development levies (although we expect more will adopt development levies over time because it is a more flexible tool to recover the costs of growth in an increasingly flexible planning system and financial contributions are being removed under the Resource Management Reform so territorial authorities will have no other tool to recover the costs of growth infrastructure).
- 50. This may require a future cost recovery model to allow for annual reconciliations and adjustments, a return mechanism or considerations of regulator cost-savings or the least desired outcome; additional Crown funding to support. Information necessary to inform any potential under-recovery will become more accurate over the establishment and transition period and inform options such as cost-savings.
- 51. Further, minimum information disclosure requirements will apply to all territorial authorities to provide information regarding their decision not to use development levies.²⁰

²⁰ Often territorial authorities that do not have development levy policies have limited or no growth demand, or sufficient capacity in existing infrastructure networks.

The costs to the regulator to analyse the territorial authorities' information will need to be captured within the costs of the broader information disclosure function which could result in some cross-subsidisation. However, we anticipate these costs to be relatively low noting much of that information is already publicly available and we expect more territorial authorities to adopt development levies over time.²¹

52. It must be noted that cost recovery will have a financial impact on parties charged. The level of that impact will be determined by the model implemented and will require further analysis in a second stage CRIS.

What type of charge?

53. In general, fees or levies are considered an appropriate funding tool where possible to:
- a. identify specific individuals or groups that directly benefit from a given Government activity or service; and
 - b. efficiently charge or levy individuals or groups that benefit from a given Government activity or service.
54. As discussed above, specific individuals or groups that benefit from regulation are identifiable and it is assumed that efficient charging can be achieved. The model chosen will determine the complexity of the charging arrangement.
55. Treasury guidance sets out the two main categories of cost recovery as:
- a. cost recovery fees: charges imposed on a specific individual or organisation for a good, service or regulation directly provided to (or directly benefiting) that individual or organisation; and
 - b. cost recovery levies: charges imposed on a group of individuals or organisations (e.g., an industry) as a proxy for the individuals or individual organisations who directly receive or benefit from the good, service, or regulation.²²
56. **A levy is likely most suitable however both levies and fees may be necessary**, if cost recovery charges are to apply to all beneficiaries.²³ A second stage CRIS will inform design of regulation and whether a levy or fee, or both are used.

Who should pay?

57. The Treasury guideline principles of effectiveness, transparency, equity and simplicity are relevant when considering who should pay for the ongoing costs of regulatory oversight, as is the principle of growth pays for growth.²⁴ These are broadly applicable to both a beneficiary-pays and exacerbator-pays approaches which therefore represent the two broad approaches to developing a cost recovery regime for regulation of development levies.

Beneficiary-pays – charges imposed on those who receive direct benefits

²¹ Information during the transition period will better inform the scale of these costs to the regulator and can be considered during a Stage 2 CRIS.

²² Treasury April 2017 *Guidelines for Setting Charges in the Public Sector*.

²³ That is, a future model may charge territorial authorities a levy and enable a portion to be passed through to developers as a fee. This would be dependent on further analysis and need to consider efficiency and protections against more being passed through than intended.

²⁴ The other principles include authority, efficiency, consultation and accountability. The guidelines not these principles may at times be in conflict.

58. Independent regulation will provide assurance that levies are set and used in a way that is transparent, predictable, and consistent. The purpose can be considered as one of supporting development levies system stewardship and governance.
59. The rationale for beneficiary-pays is largely discussed above but in short is beneficiaries are identifiable and excludable and gain financial benefit from regulation (i.e., developers) and/or from a successful development levies system (i.e., territorial authorities and water service organisations).
60. Developers requested independent regulation of development levies. Charging developers as the main beneficiaries would encourage an efficient system. That is, it can achieve equilibrium between regulator's outputs and an appropriate level of trust and confidence in the system (i.e., avoids unjustified/unnecessary levels of regulator output).
61. Charging developers could in part be considered inconsistent with the broader objectives of GfHG (i.e., improving housing supply and affordability) as any additional costs will form a portion of a project's 'cost stack' and inform a developer's breakeven point for development feasibility, as will development levies. Cost recovery could therefore result in upwards pressure on house prices in this context however, this is expected to be marginal compared to the purchase price, for reasons outlined below.

Exacerbator-pays – charges imposed on those whose actions necessitate oversight

62. Development levies will be inherently more flexible than development contributions and this can create variability and inconsistency risks for the system. The risks the regulatory regime could be considered as mitigating include for example:
- a. inefficient or inequitable growth infrastructure cost allocation;
 - b. over or under-recovery of growth infrastructure costs; and
 - c. inconsistency across territorial authorities.
63. Territorial authorities can be considered the main exacerbator of these potential risks that is, a territorial authorities' resourcing and capability could modify the chance of a non-compliant development levies policy. However, mitigating factors are built into the legislation and regulations (e.g., guiding principles), territorial authorities are expected to act in accordance with requirements, and the regulator will have enforcement tools available to them. Therefore, applying an exacerbator-pays approach assumes in part some wrongdoing by territorial authorities which has not been clearly evidenced to date.
64. There is some rationale for developers being considered exacerbators given they drive demand for development levies however, this primarily acts as a risk modifier and creates a reinforcing loop with the risk of non-compliant policies (e.g., more demand may require more complex development levies policies that territorial authorities are under resourced or lack capability to produce).
65. Charging territorial authorities on exacerbator-pays rationale would inequitably impact on ratepayers as the main revenue source for territorial authorities.²⁵ This would be inconsistent with the objectives and desired outcomes of development levies and Going for Housing Growth (i.e., reducing disincentives for ratepayers and communities support of growth).
66. For these reasons, a beneficiary-pays approach is considered better suited to this context.

²⁵ Unless enabled to pass costs on e.g., to developers.

Developers or territorial authorities

67. **Charging developers in full, or at least the majority of costs, is considered justified** as developers are the main beneficiaries and is consistent with the principles of justifiability, equity, efficiency and growth pays for growth as:
- a. regulatory oversight supports an effective development levies system primarily through system stewardship and governance rather than mitigating unlawful or risky behaviour;
 - b. developer stakeholders have consistently advocated for an independent regulator;
 - c. developers gain the most direct benefit from regulatory oversight; and
 - d. recovering costs from developers will encourage efficiencies and identify an appropriate equilibrium between regulatory output and trust and confidence.
68. **Charging territorial authorities, in part, is not considered justified** as it could be considered inequitable, inefficient, and inconsistent with growth pays for growth because:
- a. territorial authorities are already expected to comply with legislative and regulatory requirements;
 - b. there is no evidence of unlawful or risky behaviour; and
 - c. charging territorial authorities will inequitably impact ratepayers and be inconsistent with Going for Housing Growth outcomes and growth paying for growth and may be inconsistent with broader Government policies impacting

Method of cost/recovery levies/fees

69. Depending on the future model, it may be most efficient for cost recovery levies/fees to be passed through or collected by territorial authorities on behalf of the regulator.²⁶ Territorial authorities already have the technical and administrative infrastructure in place to invoice and collect fees that can then be passed back to the regulator. A future model would need to consider how to manage this and ensure there is a consistent and efficient approach. It would also be informed by who administers the regime as discussed above.

High level cost recovery model (the level of the proposed fee and its cost components)

Estimated charge levels

70. At this stage estimated charge levels are not yet known and will be informed by final regulatory oversight design and function decisions, outputs, and information, such as, the number of territorial authorities with active development levies policies (information that will become clear over the transition period). A future model will necessarily be informed by this information and should be considered against criteria, such as the guiding principles of equity, efficiency, justifiability, and transparency.²⁷
71. Further analysis will need to consider that not all territorial authorities will charge for all six infrastructure classes. It may be more efficient and equitable for a model to determine costs of regulator resource required per infrastructure service provided/charged for by the

²⁶ Territorial authorities collect building levies for the costs of building regulation on behalf of the Ministry of Business, Innovation and Employment.

²⁷ Office of the Auditor-General August 2021 *Setting and administering fees and levies for cost recovery: Good practice guide*.

territorial authority. This will require consideration of differential or variable cost recovery levies/fees. An appropriate methodology for charging will be included in a second stage CRIS and could include for example, a cost allocation approach based on levy revenue, number of levies/consents or volume of development activity. The method selected should be simple, predictable, transparent and minimize administrative burden. The second stage CRIS will also determine the most efficient method for administering and collecting development levies regulator costs.

72. A relatively simple model could calculate possible levies/fees as cost per unit of demand that is, the ongoing costs of regulation divided by the demand for an independent regulator as reflected by the number of development levy assessments. This approach has some obvious limitations however is useful to illustrate the quantum of potential costs.
73. For example, demand could be measured by proxy using StatsNZ average new dwelling consent data or value of building work in place to include commercial developments as indicative of the number of development levy assessments undertaken. Applying this simple approach using the Commission's estimated operating cost and the four-year average, 28 of new dwelling consents for territorial authorities with development contribution policies results in an estimated charge per unit of demand of approximately \$300 (note, this assumes full cost recovery of operational costs). This would represent approximately 1.9 percent of a \$15,000 development levies charge, 0.98 percent of a \$30,000 development levies charge and 0.39 percent of a \$75,000 development levies charge, or 0.034 percent of the December 2025 average house value of \$864,783.29
74. If charging territorial authorities, StatsNZ information can be broken down by territorial authority, however, does not capture water service providers/organisations or the infrastructure services they charge for. Averaging can smooth variations in demand addressing some complexities however, also doing so captures cyclical changes and/or shocks (e.g., high demand in the immediate years following relaxing of COVID-19 measures). As an illustration (assuming full cost recovery of operational costs) Auckland Council, Christchurch City Council and Hamilton City Council could be liable for approximately \$5.0 million, \$1.25 million and \$350,000 per annum respectively.

Main cost drivers

75. The main cost drivers will be the activities undertaken by the regulator (the Commission) as described broadly above as establishing the system (building relations, communication and education about expectations and setting development levy methodologies) and regulating the system (information disclosure, compliance with existing requirements, extra rule making powers and enforcement actions). Further functions and outputs may be included and will need to be considered when determining cost drivers.

Breakdown of the user charge

76. Breakdown of user charges will necessarily be informed as information becomes more certain around the number of regulated parties during the transition/phase in period. Further analysis will be required on this and inform a Stage 2 CRIS.

Present estimates of expenses and revenue

²⁸ Four-year average simply to align with the cost forecast period, it may be more appropriate to take a three-year average to align with council Long-term Plan cycles

²⁹ <https://quarterly.infometrics.co.nz/new-zealand/housing/house-values>.

77. The exact resource requirements in terms of staff and hours per year are still to be determined. However, the Commissions indicative information suggested between 20 and 30 full-time equivalent staff would likely be required.

Underlying assumptions

78. As discussed throughout the CRIS, further design and function decisions are to be made. A future model will need to reflect those decisions. Some key considerations include:
- a. Not all territorial authorities/water organisations will set levies for all six infrastructure services, so it may be appropriate to apportion differential/variable levies/fees depending on the amount of regulator resource required per infrastructure service.
 - b. Some water organisations cover more than one territorial authority jurisdiction.
 - c. Development levy policies are relatively fixed and there will be ample warning of a territorial authority either adopting or removing a policy makes cost recovery of territorial authorities/water organisations relatively simple, however developers and the number of development levy assessments undertaken are not fixed adding complicating factors.

Consultation

79. Due to timing constraints, stakeholders (developers, development organisations, territorial authorities, and water organisations) have not been consulted on this initial cost recovery policy development or the regulatory arrangements. There is likely to be opposition or challenge to these proposals, depending on who is charged and how much. Targeted consultation with affected stakeholders during the development of a second stage CRIS and cost recovery regulations would be important to ensure the charges are equitable and simple to administer.
80. There was public consultation on the wider policy to replace development contributions with development levies. The consultation period for the Local Government (Infrastructure Funding) Amendment Bill exposure draft and discussion document ended on 20 February 2026, with a total of 56 submissions received.
81. The exposure draft bill did not include provisions for Commerce Commission regulation of development levies. However, Cabinet's in-principle decision about the Commerce Commission being the independent regulator was announced in November 2025. This meant some submitters commented on the regulator. There was general support for using the Commerce Commission to build confidence in the system and ensure consistency and transparency. Territorial authorities raised the need for the regulator's scope and purpose to be clearly defined to ensure that they do not undermine local decision-making. Developers and development organisations called for regulator to ensure transparency on levy methodologies.
82. That discussion document sought comment on the ability for an administrative charge to be included on development levies.
83. Some development stakeholders (e.g. Property Council New Zealand (PCNZ)) have consistently advocated for the establishment of an independent regulator 'from day one' of the development levies system. However, PCNZ have also questioned the need for an administrative charge, so it is probable PCNZ would also raise concerns about cost recovery charges.

84. Opportunities for feedback on cost recovery would occur through the select committee process when establishing enabling provisions in primary legislation. Consultation can also occur during development of regulations and prior to the setting of a cost recovery charge.
85. The Ministry for Regulation, Ministry of Business, Innovation and Employment, and Commerce Commission were engaged during development of this CRIS. Agencies were supportive of the above analysis and acknowledged that more information will become available during the transition to a development levies regime and inform a second stage CRIS.

Proactively released by the Department of Internal Affairs