Regulatory Impact Statement: Going for Housing Growth – Improving Local Government Infrastructure Funding Settings

Coversheet

Purpose of Document	
Decision sought:	Cabinet policy approval
Advising agencies:	Department of Internal Affairs (DIA) and the Ministry of Housing and Urban Development (HUD)
Proposing Ministers:	Minister of Local Government, Minister of Housing
Date finalised:	25 November 2024 (Update published 11 June 2025)

Problem Definition

Changes in legislation and the operating environment have created uncertainty for councils regarding when and where growth will occur within their jurisdiction. As a result, development contributions – a primary tool for recovering the growth costs of infrastructure, are no longer as effective as they once were. Councils are currently unable to recover the full cost of growth infrastructure from developers, shifting the financial burden onto the wider community through increased rates.

Executive Summary

Whenever a council considers an infrastructure project, it must consider the "drivers" for that project. Councils must decide what proportion of the project is driven by the need for:

- renewal – replacing existing infrastructure that is nearing the end of its useful life;
- improving levels of service – providing infrastructure that improves the level of service for the community; or
- growth – infrastructure with more capacity that the existing community needs (or new infrastructure), to allow for new development.

Councils can charge development contributions to recover the cost of providing new infrastructure, or infrastructure with additional capacity to provide for new residential or commercial development.

Development contributions are a way to pass the "growth cost" of infrastructure assets to the people who benefit – the owners of new homes or business – rather than requiring the wider community to pay for new or additional infrastructure through their rates. Development contributions can only be charged where there is a "causal nexus" between a specific development (or groups of developments) and specified new infrastructure assets (or assets of increased capacity).

Local government in New Zealand is comprised of 11 regional councils and 67 territorial authorities (of which 6 are unitary authorities, 13 are city councils, and 53 are district councils). These are collectively referred to as "local authorities".

Only territorial authorities can charge development contributions. Where the term "councils" is used in this document, it refers to territorial authorities unless otherwise specified.

Due to changes in legislation and the operating environment, development contributions are becoming a less effective cost recovery mechanism. The Department of Internal Affairs (the Department) considered three options to address the policy problem:

1. The counterfactual (considering what would happen if we did not make changes to infrastructure funding settings to respond to an increasingly enabling planning system).
2. Amending development contributions while keeping the current causal nexus between individual developments (or groups of development) and specified infrastructure projects, and using enhanced targeted rates to recover a greater proportion on of costs.
3. Replacing the development contribution regime with a new development levy system, and using enhanced targeted rates to better allocate the cost of infrastructure provision to beneficiaries (preferred option).

The options were analysed against the following criteria:

- **Effectiveness**: Tools should enable councils to recover a greater share of the growth costs of infrastructure.
- **Administrative simplicity**: Tools should be as simple as possible to administer, ensuring council resource is used efficiently.
- **Predictability**: Developers and councils should be able to anticipate how much they will need to pay, and this should remain stable over time.
- **Fairness**: The interests of ratepayers, developers, and councils should be balanced to ensure that the tools result in a fair distribution of costs.
- **Efficient use of infrastructure**: Where a council (or another party) has provided infrastructure with growth capacity, the cost of this infrastructure will be efficiently recovered, and the capacity efficiently consumed. Funding and financing tools should also incentivise development to occur in lower-cost locations, for example, by charging developers (or owners of new houses) the true cost of infrastructure.
- **System coherence**: Tools should work in alignment with the Government's Going for Housing Growth objectives of increasing developable land for housing and be able to be used by water service delivery organisations under Local Water Done Well – while also being compatible with the balance of the local government funding and financing system.

Option Three is the preferred option. It shifts the causal nexus away from specific developments and specific infrastructure projects to a broader connection between all development and aggregate growth costs in an area. This will allow councils to recover more of the infrastructure growth costs from appropriate beneficiaries (those benefitting from the infrastructure) and respond more flexibly to changing patterns of demand.

Option Three is complex, ambitious and will require significant future policy work across multiple domains of expertise. Detailed decisions from Ministers will be needed before drafting legislation. If Cabinet agrees to the proposed infrastructure funding settings, we expect legislation for the new levy system to pass by mid-2026, enabling the first councils to adopt the development levy system for the 2027 financial year. This aligns with the sector's 2027 Long-Term Plan (LTP) planning cycle.

We propose a phased approach, starting with high-growth councils. If this approach is taken, the Department will support the early-adopter councils to transition to the new system, before all development contributions are transitioned to levies in 2030 LTPs.

Limitations and Constraints on Analysis

This analysis was compiled under time constraints to enable Cabinet decisions to be made in the final quarter of 2024. Decisions made by Cabinet will set the high-level direction for legislative change. Responsibility for detailed policy decisions will be delegated to the Ministers of Local Government (as the Minister responsible for the Local Government Act 2002 and the Local Government (Rating) Act 2002 which this RIS proposes to amend) and the Minister of Housing, Infrastructure and Resource Management Reform (as the Minister

leading the overall Going for Housing Growth programme). Risks to undertaking detailed policy work to inform legislative change after Cabinet decisions have been made, are noted in this document.

Ministers have set the expectation that this work will set up a system where "growth pays for growth" through rates and levies, or other charges applied to new development. This restricts the options that can be explored, by requiring an alignment between growth costs and growth beneficiaries. Ministers also directed that charges should be able to be "credibly signalled in advance" which further restricts the types of cost recovery mechanisms which could be appropriate.

Time constraints reflect the Government's desire for changes proposed in this RIS to be made in legislation before councils prepare their 2027 LTPs to ensure alignment with planning cycles. Council preparation for 2027 LTPs will begin in 2026, and legislative change and guidance on implementation of these proposals would ideally be completed in early 2026 to support a successful implementation.

Consultation on the changes proposed in this RIS was limited to:

- subject matter experts at selected high-growth councils;
- central government agencies with responsibility for administering Crown funding tagged to infrastructure;
- a reference group from the development community, including the New Zealand Property Council, and
- a small selection of Māori housing stakeholders.

Limited consultation with councils was both due to Ministerial direction, and the technical nature of the discussions, while high-level proposals for change were under development. It would be beneficial to consult more widely with councils on the high-level proposals before Cabinet makes decisions on the future direction of the system, but this is not possible in the time available.

There will be the opportunity for the public and local government to participate through the select committee process, although councils will be limited in how they can engage due to local elections falling into the projected select committee period.

Responsible Manager(s) (completed by relevant manager)	
Richard Ward	Hilary Joy
General Manager	General Manager
Policy and Operations	System Policy
Department of Internal Affairs	Ministry of Housing and Urban Development
	
26 November 2024	27 November 2024

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Ministry of Primary Industries (chair), Department of Internal Affairs, Ministry of Housing and Urban Development

Panel Assessment & Comment:	The panel considers that the information and analysis summarised in the RIA partially meets the quality assurance criteria. The RIS provides a clear description of a complex cost recovery system that is not keeping up with other policy decisions and changes, and generally meets the complete and convincing criteria, within the constraints and limitations noted. The RIS is constrained by Ministerial expectations and so the relative impact of other potential options is not provided. The costs and benefits of the preferred option are qualitative as the preferred option, and the changes to the NPS-UD, are still subject to detailed policy decisions by Ministers, and the choices that are made about the final design may change the cost/benefit assessment. The transitional arrangements / phased approach is an important consideration for the effective delivery of the proposal that will need to be further developed. Consultation was limited to a subset of potentially affected parties, and while there is an opportunity for engagement through the select committee process, further engagement on the detailed policy design is likely to be required.

Update to correct Table 14 Rural-urban differential ($/sqm) adjusted by development contributions

Table 14 provides values for rural-urban differentials, which are used to consider how much capacity there is for increased infrastructure charges to be absorbed into land prices over the longer term. Rural-urban differentials are calculated using the New Zealand Land Value Model (NZLVM). The original RIS incorrectly provided raw values for the difference between rural and urban land values, rather than modelled results that take into account other variables (such as distance to the city centre, and slope of the section). This version of the RIS provides the correct values for rural-urban differentials based on the results of the model. Because the modelled results are not easily intuitable from the unmodelled average values of rural and urban land, we have removed those columns from the table. The change to Table 14 does not affect the assessment of impacts from policy proposals. Although the incorrect values were included in the original RIS, officials' assessment of the confidence that infrastructure costs could be absorbed into land prices was based on the modelled results.

Glossary

Explanation of the following terms may be useful.

TERM	DEFINITION
Beneficiaries	Individuals or a group that receive benefits from an infrastructure development project
Brownfield development	New development to cater for growth that takes place within the existing urban area. This can be intensification or infill (see below) or the redevelopment of commercial or industrial sites for housing.
Causal nexus	Link between a development or groups of developments and particular new infrastructure assets (or assets of increased capacity)
Councils	Where the term "councils" is used in this document, it refers to territorial authorities unless otherwise specified. Local government in New Zealand is comprised of 11 regional councils and 67 territorial authorities (of which 6 are unitary authorities, 13 are city councils, and 53 are district councils). These are collectively referred to as "local authorities". Only territorial authorities can charge development contributions.
Reserves	Land held by a council as a reserve under the Reserves Act 1977
Network infrastructure	Roads and other transport, water, wastewater, and storm water, collection and management infrastructure
Community infrastructure	Public amenities such as libraries, neighbourhood halls, parks, playgrounds, and public toilets
Community facilities	Means reserves, network infrastructure, or community infrastructure for which development contributions may be charged
Development contributions	A charge that territorial authorities can levy on developments when new residential or commercial developments are consented (or service connections approved). Development contributions can recover a proportion of the cost of capital expenditure to provide reserves, roads and other transport, water, wastewater, stormwater collection and management, and community infrastructure
Development levy	Proposed (Option 3 in this document) new way of funding development which would aggregate costs for development across an area
Financial contributions	A contribution of money, land or both from landowners or developers as a condition of a resource consent under the Resource Management Act 1991
Greenfield development	New development to cater for growth that takes place at the edge of an urban area

Growth costs	The proportion of the cost of capital expenditure on new or additional assets or assets of increased capacity for: reserves, roads and other transport, water, wastewater, stormwater collection and management, community infrastructure, which aligns with the benefit received by development
Infill development	Building on unused or underutilised space within an existing urban area, leaving existing houses in place and developing the remaining land.
Infrastructure assets	Things councils provide for which development contributions can be charged. There are: reserves, transport, water, wastewater, stormwater collection and management, community infrastructure
Infrastructure growth charges	Infrastructure growth charges (IGCs) are a charge levied by Watercare on development. They are a contribution towards Watercare's capital investment in bulk infrastructure, charged when a new service connection or connection of increased capacity is approved.
Intensification	Intensification is the development of a property, site or area at a higher density than currently exists, through development, redevelopment, infill and expansion or conversion of existing buildings.
Non-growth costs	The proportion of the cost of capital expenditure on new or additional assets or assets of increased capacity for: reserves, roads and other transport, water, wastewater, stormwater collection and management, community infrastructure, which aligns with the benefit received by the existing community
Rating Unit	A piece of land with a record of title, for the purposes of rating
Remissions	Cancellation of debt or charges
Renewals	Assets replaced at the end of their useful life
Targeted rates	Pays for specific services or projects and can be set generally across all ratepayers or to specific ratepayers in certain areas

Section 1: Diagnosing the policy problem

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

New Zealand's housing market is one of the least affordable in the developed world, in large part due to insufficient housing supply

1. House prices have increased faster than incomes over time, with direct housing costs making up a higher proportion of household incomes. High house prices and 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. This impacts a wide range of population groups, including those who do not own a home or have unmet housing need.

2. One part of the Government's plan to tackle New Zealand's ongoing housing shortage is the Going for Housing Growth (GfHG) programme. GfHG has three "pillars" and this work falls under Pillar 2. Pillar 1 of the GfHG programme is based on the premise that a key contributor to New Zealand's housing crisis is that our urban land markets are neither as competitive, nor as well-functioning as they could be. This is driven significantly by district and unitary plans governed by the Resource Management Act 1991 (RMA), which in many cases are not sufficiently enabling housing (and of commercial and community activities in proximity to housing). The Regulatory Impact Statement (RIS) for Pillar 1 of GfHG is published on the Treasury website.[1]

3. Pillar 1 builds on recent planning and zoning changes which have significantly increased the supply of land for housing in New Zealand's main urban centres. At a local level, some of these changes have been council-initiated, such as the Auckland Unitary Plan, or developer initiated through private plan changes. At a national level, government has mandated increased land supply through the National Policy Statement on Urban Development (NPS-UD) and the Medium Density Residential Standards (MDRS). This has significantly increased the supply of land for housing in New Zealand's main urban centres with 30 year Housing Growth Targets planned to be introduced in upcoming changes under the RMA. These changes to planning and zoning aim to improve housing supply, choice, and affordability in urban areas.

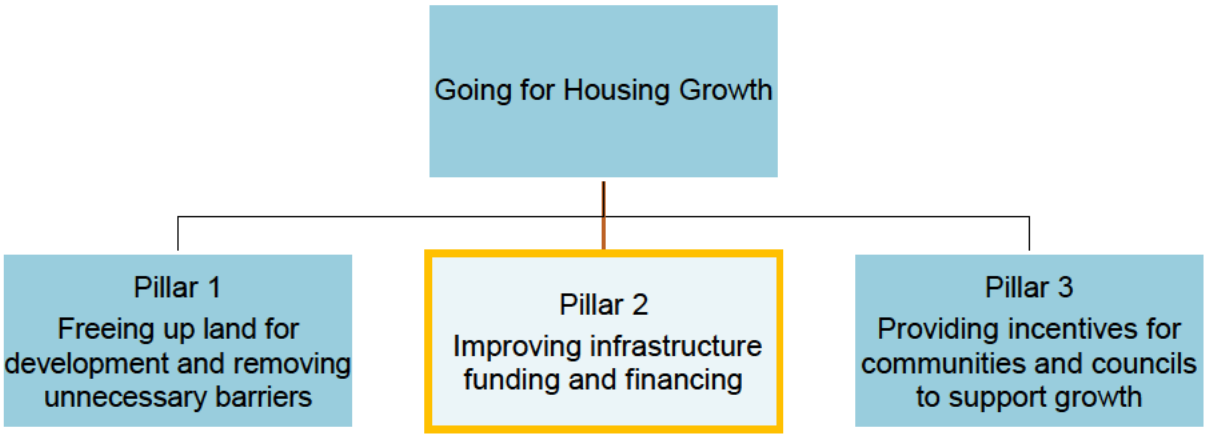
4. This necessitates corresponding changes to the way infrastructure is funded. Under the existing planning system, zoning land for development commits a council to ensure that land will be "serviced" with infrastructure. Increasing development opportunities will require different approaches to infrastructure provision, including settings which enable developers to provide infrastructure or to fund infrastructure provision.

Improved infrastructure settings will enable councils to recover growth costs from growth beneficiaries while increasing the supply of land for development

5. The proposals in this RIS are part of the *Improving infrastructure funding and financing* pillar (Pillar 2) of GfHG. As a package, GFHG is designed to ensure more development capacity is more responsive and shifts market expectations of future scarcity and brings down the price of land. This will support efficient urban development, increase housing supply, and lift productivity in our cities.

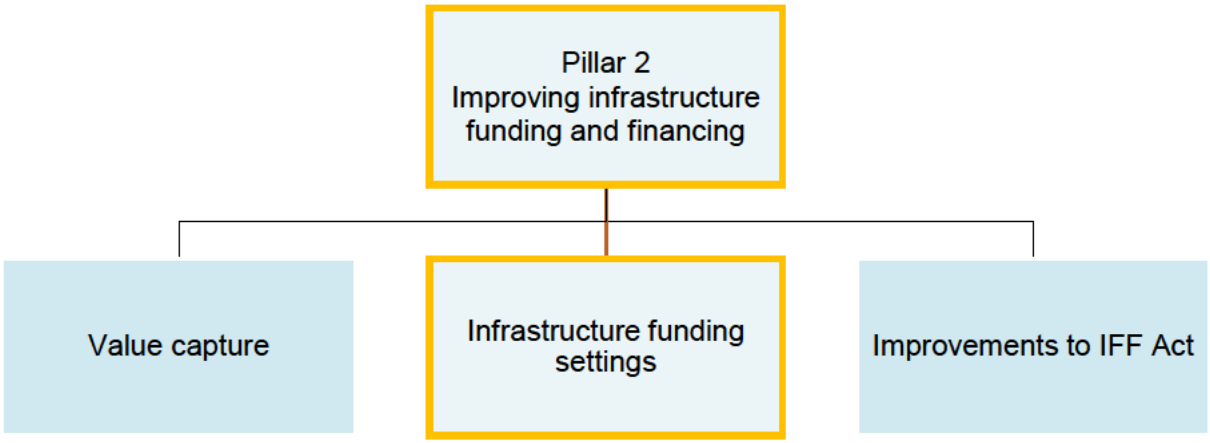
[1] Regulatory Impact Statement: Going for Housing Growth – Freeing up land for development and enabling well-functioning urban environments - 12 June 2024 - Ministry of Housing and Urban Development, Ministry for the Environment

Figure 1. The pillars of the Going for Housing Growth Programme



6. The *Improving infrastructure funding and financing* pillar (Pillar 2), aims to ensure that councils, developers and government can access the funding and financing tools needed to build infrastructure that is necessary for growth. It has three workstreams, shown in the diagram below.

Figure 2. Workstreams within the Improving infrastructure funding and financing pillar



Councils are responsible for ensuring there is sufficient infrastructure capacity to meet demand in our communities

7. Communities grow when new housing is built, or when new businesses are established. Councils, are responsible for ensuring that our infrastructure networks can cope with this growth, as the principal provider of much of the infrastructure that serves our communities.

8. New developments that take place within an existing urban area are known as brownfield development or intensification. Those at the edge of the urban area are known as greenfield development. These types of growth often increase demand beyond the capacity of existing infrastructure. Councils are responsible for ensuring that there is sufficient infrastructure capacity to meet demand. For safety, sanitation and maintenance reasons, councils must provide new network infrastructure assets or assets of increased capacity in response to demands from growth.

9. The infrastructure councils provide includes reserves, parks and open spaces, roads and other transport, water, wastewater, and storm water, collection and management infrastructure; and community infrastructure such as public amenities including libraries neighbourhood halls, parks, playgrounds, and public toilets. [2] Utilities like

[2] Section 197(2) of the LGA

electricity and telecommunications, along with social infrastructure such as education and healthcare, are normally outside the scope of a council's responsibilities.

The Local Government Act 2002 requires councils to consider the distribution of benefits when choosing their funding sources

10. New developments usually require councils to provide additional infrastructure. A development typically requires:

    - New infrastructure within the boundaries of the development—most of which is paid for directly by the developer,
    - New infrastructure linking the development to the existing infrastructure network; and
    - Increases in the capacity of the existing infrastructure network (bigger roads, bigger trunk pipes, bigger waste-water treatment facilities, etc.).

11. In the wording of the Local Government Act 2002 (LGA02), everything a council does is called an "activity" including the provision of infrastructure. When considering how to pay for any activity, a council must consider who benefits from the activity. When it comes to paying for infrastructure, councils must decide how much of the benefit will accrue to existing residents, and how much will accrue to future residents.

12. Where benefits accrue to existing residents, the activity can be funded by rates or user charges paid by existing residents (or another source of funding available to the council such as dividends from assets or investments or grants). Where benefits accrue to future residents, councils must decide how best to recover the costs. One mechanism available to councils to recover costs from future residents is by charging development contributions.

Table 1. Alignment between beneficiaries, funding sources and drivers

	Non-growth	Growth
Beneficiary	Existing residents (the wider community)	Future residents
Funding tools available	Rates, dividends, user charges	Growth funding tools (development contributions etc)
Driver: and benefit received	**Renewals**: assets replaced at the end of their useful life. **Levels of service**: providing a new, higher standard of service, for example, improved street lighting.	**Growth**: infrastructure with the capacity to service your development

13. If a council plans to recover costs through growth funding tools, they finance these costs (take out a loan to cover the costs) so they can build the asset ahead of growth (they get the pipes and roads etc. in before development takes place) and then recover costs as growth happens. If a council is unable to recover growth costs using the available tools, they then need to find the money somewhere else.

14. Unrecoverable growth costs are usually met through rates. Sometimes these rates can be targeted to recent development (as discussed in paragraphs 39-40) but often these costs are met through general rates – meaning the wider community pays for infrastructure they do not necessarily benefit from.

Development contributions are a mechanism to recover the growth costs of infrastructure from those who benefit

15. Local government in New Zealand is comprised of 11 regional councils and 67 territorial authorities (of which 6 are unitary authorities, 13 are city councils, and 53 are district councils). These are collectively referred to as "local authorities". Only territorial authorities can charge development contributions. Where the term “councils” is used in this document, it refers to territorial authorities unless otherwise specified.

16. When a council provides new infrastructure assets or assets of increased capacity for the benefit of new development, it can choose to finance the growth portion and then recover the costs through:

    - **Financial contributions** under the Resource Management Act 1991 (RMA); or
    - **Development contributions** under the LGA02; or
    - **Targeted rates** under the LGA02; or
    - **Infrastructure Growth Charges** (IGCs) which are charged only for water and wastewater services in Auckland, as below; or
    - A mixture of the above.

17. In Auckland, Watercare is responsible for the provision of water and wastewater services. Watercare is a Council Controlled Organisation (CCO) with responsibility for capital and operational expenditure for water and wastewater assets. Watercare recovers growth costs through IGCs on a contractual basis.

18. A more detailed overview of the legislative framework for existing growth infrastructure funding tools can be found in **Annex A.**

19. Of the 67 eligible councils (territorial authorities), 42 use development contributions (sometimes in combination with financial contributions and targeted rates). Of the remaining 25 councils:

    - some use financial contributions under the RMA instead of development contributions;
    - some have such a low level of growth that they cannot justify the cost, complexity, and resourcing required to establish and administer a development or financial contributions regime;
    - some are not growing and have no call to use any of the available mechanisms to recover growth costs; and
    - some have signalled an intention to begin charging development contributions.

20. The NPS-UD defines Tier 1, Tier 2, and Tier 3 councils based on the size of urban areas, population, and the significance of growth pressures. Only one Tier 1 council (Western Bay of Plenty District Council) and one Tier 2 council (Napier City Council) exclusively use financial contributions. All other Tier 1 and Tier 2 councils use development contributions as their primary growth-cost recovery tool (sometimes in combination with financial contributions for certain facilities/assets).

Development contributions are not recovering the full growth costs of infrastructure, so communities carry the cost through higher rates

21. Development contributions were seen as a way councils could equitably recover growth costs from the appropriate beneficiaries (new developments). However, development contributions are not currently effective in ensuring growth costs are being sufficiently met by growth beneficiaries.

22. Growth costs which cannot be recovered from growth beneficiaries (development) are usually recovered from general rates.[3] If councils must use ratepayer funding to recover some of the growth costs of infrastructure projects this means:

- there is less ratepayer funding to put towards non-growth costs, so projects must be scaled back or less infrastructure can be built, which will create future shortages, or
- rates must be raised to pay for the infrastructure that is needed, or cuts must be made to other areas of spending which can create opposition from the community to growth and new development.

23. At a time when rates are already being raised to pay for the renewal of existing infrastructure, raising rates to pay for growth can make growth unpopular and disincentivise councils from planning for new growth.

24. The Productivity Commission's 2015 inquiry on Using Land for Housing found that when the financial burden of development is placed on ratepayers, it leads to weak incentives for councils to facilitate growth, as existing ratepayers often resist bearing the cost associated with new development.[4] This has contributed to the sector's historical failure to adequately supply development capacity for housing in fast-growing urban areas. This lack of capacity has been a major factor driving rapid increases in housing prices across New Zealand since around 2000.[5]

Why isn't the development contributions system working as intended?

25. Development contributions are a cost recovery mechanism based on a "user pays" principle. Development contributions can only recover costs that can be directly attributed to a particular development or group of developments. This link between a development or groups of developments and particular new infrastructure assets (or assets of increased capacity) is known as the *causal nexus*.

26. This means development contributions can only be imposed if the effect of the development, either alone or in combination with another development, is to create demand for infrastructure or reserves, and the council therefore incurs capital costs to meet that demand (and where those capital costs will not be met from another source). The LGA02 also specifically allows the council to anticipate the demand and provide the capital in advance of the development occurring and the contribution being sought.

Table 2. Development contributions setting process

	Detail
Step 1	**Projecting future demand** Councils start by estimating 'growth' in their area, in this context, growth means: • population increases, • housing development, and • commercial development. Councils then zone sufficient land to meet growth demand. Once land is zoned for development, the council must provide the infrastructure required to provide services to that development. At present, councils must:

[3] A council could also use dividends, if available, to cover growth costs, but few councils receive regular dividends. User charges (such as tolls) for the unrecovered growth portion of particular infrastructure assets would be costly and complex to set up and may require authorisation in legislation.

[4] New Zealand Productivity Commission. (2015). Using Land for Housing: Final report.

[5] New Zealand Productivity Commission. (2019). Local government funding and financing: Final report.

<table>
<tr><th></th><th>Detail</th></tr>
<tr><td></td><td>

provide sufficient infrastructure serviced zoned land for the short term (3 years of growth);
zone sufficient land for 10 years of growth; and
indicate in their future development strategy where they anticipate the next 30 years of growth.

(Note: only high-growth councils are required to have a future development strategy)
</td></tr>
<tr><td>Step 2</td><td>
Identifying required infrastructure

Based on growth projections, councils must determine what infrastructure is needed to provide for development in all areas where development may happen (all areas zoned for development).

Councils determine which infrastructure improvements or new facilities are necessary to support increased demand.

Changes to planning requirements have seen a lot of existing urban areas zoned for intensification (infill development). Councils may not propose new infrastructure assets everywhere that has been zoned for intensification. This may be because:

they do not expect development in the medium term (the next 10 years) or
they cannot cover the associated non-growth costs without significantly raising rates.

This can mean the higher development contributions in the suburbs where councils have planned infrastructure investment to support intensification, and lower development contributions where no infrastructure investment is planned. This could perversely incentivise development in places without infrastructure planned to support it. One high growth council reported that they have ten suburbs zoned for intensification but can only invest in two at a time.
</td></tr>
<tr><td>Step 3</td><td>
Applying equitable cost-sharing

Once councils have determined which infrastructure they intend to provide, they determine what proportion of the cost is attributable to growth. This must align with the benefit to growth from the projects.

Development contributions can only be charged where a council provides:

new or additional assets or
assets of increased capacity.

Infrastructure projects that replace existing assets with assets of increased capacity usually have a sizeable “renewal” component (where the existing asset is replaced) and a “level of service” component (where the replacement provides a better service than a straight renewal would) as well as a “growth” component (the additional capacity).

Asset replaced with an asset of increased capacity – Project cost $100m
<table>
<tr><td>Example 1</td><td>Renewal (cost to replace existing asset)</td><td>Level of service improvement (benefit to the community from a better asset)</td><td>Growth (benefit to new development)</td></tr>
<tr><td>Benefit</td><td>40%</td><td>20%</td><td>40%</td></tr>
<tr><td>Cost</td><td>$40m</td><td>$20m</td><td>$40m</td></tr>
</table>
Infrastructure projects which provide new or additional assets to provide growth capacity often provide benefit to the existing community, through improving the
</td></tr>
</table>

<table>
<tr><th></th><th>Detail</th></tr>
<tr><td></td><td>overall network. New roads to serve development may have the side effect of lower congestion on existing roads, and new community facilities will be accessible to the whole community. The existing community pay for their share of the benefit.

New asset to provide growth capacity – Project cost $100m

<table>
<tr><td>Example 2</td><td><s>Renewal</s></td><td>Level of service improvement (benefit to the community from a better network)</td><td>Growth (benefit to new development)</td></tr>
<tr><td>Benefit</td><td>0%</td><td>20%</td><td>80%</td></tr>
<tr><td>Cost</td><td>$0m</td><td>$20m</td><td>$80m</td></tr>
</table>
</td></tr>
<tr><td>Step 4</td><td>Apportioning costs for new infrastructure
Councils determine which new developments can be charged for which infrastructure investments. There may be some investments that all new development in the city or district benefits from, such as:
• additional capacity in a wastewater processing plant, or
• a significant roading project which adds capacity and eases congestion across the network, or
• expansion to the central library; or
• a “destination park” which serves the whole district.
However, most assets will only serve development within a particular ‘catchment’, and the growth costs of these assets will be distributed across expected growth in that catchment. For each asset or programme of works, in each catchment, councils divide the growth costs by the expected growth units to derive a per-unit charge.

The per-unit charge may include both the costs of future projects and the cost of previously complete projects which serve the areas and were provided to accommodate anticipated growth.

(Note, councils use different growth units, but one that is common to several high-growth councils is a Household Unit Equivalent (HUE). Development contributions charged are then charged on a per-HUE basis and the amount paid for one new dwelling can be scaled to account for dwelling size – a granny flat may be 0.6 HUE and 5 bedroom house may be 1.3 HUE).</td></tr>
<tr><td>Step 5</td><td>Legal and public consultation
Every infrastructure asset or programme of works for which a development contribution will be charged must be included in a council’s development contributions policy. The finalising the policy and the development contribution charges, councils must consult with stakeholders, including developers and the public. Adjustments may be made based on feedback, and councils work to align their policies with legal guidelines to avoid disputes. Development contributions can only be charged once all these steps have been completed.

If an application for resource consent, building consent or a service connection is submitted while a new development contributions policy is out for consultation, the relevant development contribution charge will be under the existing policy.</td></tr>
</table>

27. A council may require (send an invoice for) development contributions at the time at which a resource consent, building consent or a service connection is *granted*.

However, charges are determined at the time an application for a consent or connection is *received*. This means for a development contribution to accurately reflect the growth costs of the infrastructure needed to support it, all the infrastructure assets to support the development must be included in the council's development contributions policy on the date that application for the consent is received.

28. To have all the infrastructure assets required to support a development in their development contributions policy before they receive a consent or connection application, the council must have:

- **anticipated** the location and size of the development; and
- been able to **fund** the non-growth costs of the assets and **finance** the growth costs[6]; and
- **accurately predicted the cost** of the asset, if it is yet to be completed,
- **completed** all the administrative tasks of amending the development contributions policy.

29. This may have been possible at the time development contributions were introduced, but changes to the operating environment and the governing legislation have eroded the ability for development contributions to cost recover. Development contributions were designed for a predictable growth environment, where councils had a clear understanding of when and where new developments would occur. Predictability allowed councils to plan infrastructure with reasonable accuracy, estimate financing costs, and set appropriate charges for each unit of growth capacity.

What proportion of growth costs are transferred to the wider community of ratepayers?

30. For over 10 years, high-growth councils have contacted both the Department of Internal Affairs (the Department) and the Ministry of Housing and Urban Development (HUD) to report that they cannot recover the full growth costs using development contributions. As above, when there is under-recovery from development contributions, growth cost is transferred to ratepayers.

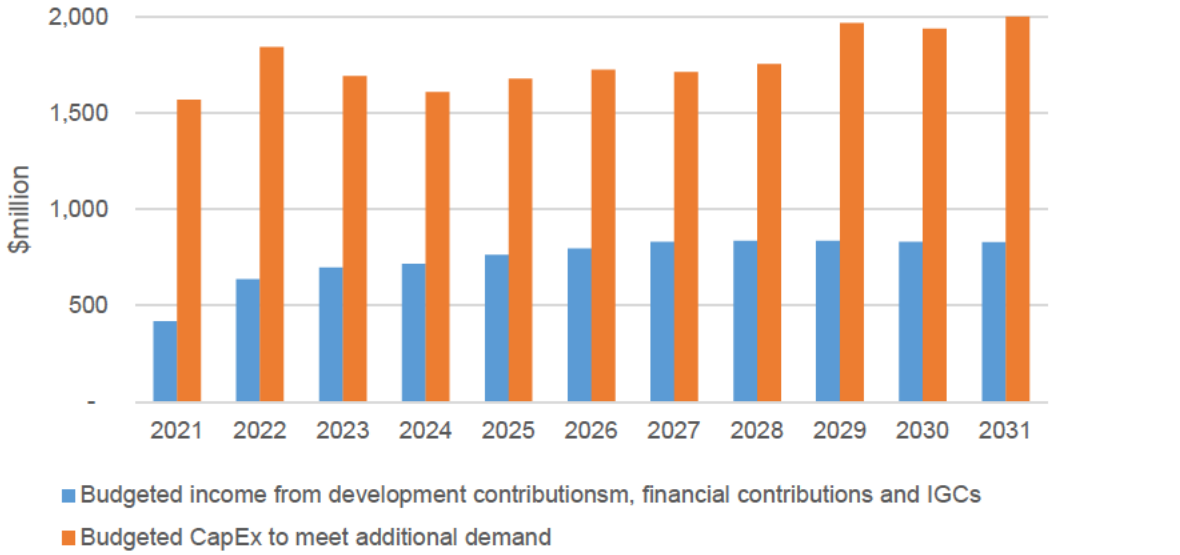
31. To try to get a "big picture" estimate of under-recovery, we looked for a way to estimate the gap between the growth costs, and growth cost recovery using existing growth cost recovery tools. To do this we reviewed council projections of:

- capital expenditure to meet additional demand (as a proxy for growth costs), and
- projected income from development contributions, financial contributions and infrastructure growth charges (IGCs, solely used by Watercare in Auckland) in 2021 long-term plans (as a proxy for the growth costs that were being met by new development).

32. For councils that recover costs using one or more of these tools, this appeared to show $19.5 billion in planned growth capital expenditure and only $8.5 billion in anticipated cost-recovery.

[6] Assets expected within the next 10 years, it must be included in a council's Long-Term Plan (LTP). Councils can only include infrastructure projects in their LTP when they have the capacity to finance the whole project – renewal and service delivery components as well as growth. An LTP will be qualified by the Office of the Auditor General as not fit for purpose if it includes work which cannot be financed within the council's financing capacity.

Figure 3. Projected capital expenditure to meet additional demand vs. projected growth cost recovery by councils using growth cost recovery tools



33. This is an overestimate of under-recovery, but useful to illustrate the maximal extent of under-recovery. Primary reasons this overestimates under-recovery are:

- a mismatch between investment and recovery periods (councils are investing heavily at the moment and will recover over many years);
- this doesn't include targeted rates because targeted rates can be used for many reasons, and we do not have data on targeted rates charged specifically for growth cost recovery; and
- a mismatch between the categories of capital expenditure to meet additional demand and capital expenditure for which growth recovery costs tools can be used. This is explored further in the paragraph below.

34. Capital expenditure to meet additional demand will cover more categories of capital expenditure than growth-cost recovery tools can be used to offset. For example: Development contributions can only recover certain growth costs. Only capital expenditure[7] can be recovered, which means the costs of planning for growth, determining growth costs and administering a development contributions system cannot be recovered. Further, the growth portion of capital expenditure can only be recovered for:

- Reserves;
- Transport;
- Water;
- Wastewater;
- Stormwater collection and management; and
- Community infrastructure.

35. Financial contributions can be charged for a wider range of assets, but only where development has an environmental impact.

36. Some capital expenditure to meet additional demand may be on assets to support servicing a larger ratepayer base, like new assets for waste management (such as land for landfill or waste processing).

[7] Capital expenditure is not defined in the LGA02, but it is commonly understood to be the cost of acquiring or upgrading an asset.

37. From the above, it is clear that estimating the extent of under-recovery across councils is not simple. Even for individual councils, it is difficult to determine under-recovery. Below are examples and estimates of under-recovery the Department received from three high-growth councils during investigations into issues with the current system. These should all be understood as illustrative rather than exact measurements.

Table 3. Council estimates of under-recovery from development contributions

Council	Comments on under-recovery	Conclusion
Auckland	The council's forecast development contribution revenue for the period 2012/2013 to 2023/2024 was $2.249 billion and the actual revenue received was $2.012 billion. This does not capture the under-recovery. The council cannot provide an accurate historical calculation of total under-recovery. This is because its records don't include: • an analysis of infrastructure it hasn't yet invested in that would have been desirably delivered before now but wasn't possible within its financing and funding constraints; • estimates of the growth that had already occurred before an investment was included in our contributions policy that could not be assessed development contributions; • easily accessible information on potential foregone revenue arising from cost increases or changes to third party funding reflected in updated policies. Drury provides a specific example where around a third of the cost it would otherwise recover from development contributions, $330 million, cannot be recovered. Under the council's 2021 development contribution policy the average development contribution price for Drury was $22,564. The development contribution price for Drury under the amended 2022 policy is $74,142. Consents for around a third of the potential development were lodged prior to the new policy being adopted.	Dependant on the growth area in question, up to a third of growth costs cannot be recovered.
Tauranga	Tauranga reported 16% under-recovery for projects that were included in development contributions policies. As at June 2023, $28.3m in debt deemed unrecoverable was transferred from development contributions funded debt to ratepayer funded debt. There is an additional $44.7m expected to be transferred. Tauranga stated that despite best efforts, "inflexibility" of development contributions provision in legislation result in Tauranga City Council collecting less revenue than is needed to pay for infrastructure, especially from the early years of a growth area. This is commonly through causes such as: • costs being higher than initially budgeted; • not all projects being included in the initial structure plan; and • projects needing significant amendment as the growth area develops.	For projects for which development contributions can be charged, **around 16% under-recovery.**
Hamilton	In the 2021/31 LTP budgeted development contribution revenue represented between 66% (year 1) and 73% (year 10) of modelled development contributions revenue. Prior to that the under-recovery was of a similar order. But, in the early years of	**Up to 34% under-recovery** at present, expected to increase to

Council	Comments on under-recovery	Conclusion
	the draft 2024/25 LTP those under-recovery percentages are 22% (year 1) and 61% (year 10). This unprecedented low percentage reflects the critical current state of the construction and development sector in Hamilton, the introduction of assumptions to reflect this, and the desire by Elected Members for conservative revenue projections ("no surprises").	61% under-recovery in the coming decade.

38. From **Figure 3**, and the above information, we can conclude that high-growth councils are finding themselves unable to recover a significant proportion of the growth costs of infrastructure through development contributions.

39. Tauranga City Council has begun using targeted rates to recover some of the growth costs for which development contributions were not able to be collected. The Pyes Pā West Urban Growth targeted rate will recover 50% of the development contribution under-recovery from that growth area, starting from 2025/26 and collected over 30 years. The remaining 50% of the under-recovery will be collected from general rates. The aim is to ensure fair distribution of costs – while this approach minimises ratepayers funding developments they don't directly benefit from, Tauranga City Council has acknowledged that the trade-off is that some ratepayers who have undertaken more recent development in Pyes Pā West will have paid a development contribution which recovered their full share of growth costs, as well as this targeted rate.

40. Tauranga has also established an Urban Growth targeted rate to prevent further shortfall in the Te Tumu growth area (Pāpāmoa and Wairākei). While much of the funding for the Te Tumu growth area comes from development contributions, Te Tumu's development timeline is likely to be delayed until around 2040 due to various challenges. To mitigate the associated funding uncertainties, Tauranga has established a differential targeted rate based on property proximity to the projects. This is expected to mitigate the risk of unaffordable future development contributions in Te Tumu by reducing the associated debt burden, which ultimately benefits the entire city and rating base.

What are the drivers of under-recovery in the development contributions system?

41. In the first phase of this work, officials worked with councils to identify barriers to full cost recovery using development contributions, and found barriers both within legislation, and across the council-political, planning, and financing system.

42. The four drivers of under-recovery can be summarised as:

- Planning and prediction problems;
- Legislative constraints;
- Political reluctance; and
- Financial problems.

43. The list of reasons that development contributions are under-recovering were workshopped with councils, developers, and housing providers and are summarised below.

Table 4. Issues encountered by councils seeking to recover growth costs through development contributions

Category	Issue
Problems with planning and prediction requirements	• Construction/infrastructure delivery cost inflation • Land prices increasing more quickly than anticipated where council must acquire land for infrastructure • The planning system's approach to intensification has made predicting the pace and spread of growth more difficult • Providing infrastructure to service the maximum probable density allowed by zoning, then developers choosing to provide lower density or staged development • The requirement to return any over-recovery to developers means policies err on the side of under-recovery (due to difficulty identifying the correct party to refund)
Legislative constraints	• Development contributions must be charged according to the policy in place when an application is lodged, and the policy may not include all the infrastructure required to service the development in the application • Not all projects being identified in the planning process because consents were lodged in keeping with a private plan change (and development contributions must be charged according to the policy when an application is lodged) • Third party funding cannot be targeted to cover non-growth costs • Projects needing significant amendment as a growth area develops and/or as environmental standards change • Crown exemptions
Political reluctance	• A desire to keep development contributions as low as possible to incentivise growth (or certain growth projects) • A desire to set development contributions at a level that will be acceptable to developers and less likely to be challenged • Councils agree to remissions but do not provide funding to offset these
Financing	• Delays between development contributions assessments being issued and payment being made to council (from consents granted to project completion) • Development contributions can only be charged on projects where the growth portion can be financed, and the non-growth portion can be funded

44. Each of the issues in the table above is explored in detail in **Annex B**, which includes examples of the costs the above issues present to high-growth councils.

Development contributions were designed for a *predictive* planning system and recent and announced changes to legislation require *responsive* planning

45. Development contributions were designed for a predictable growth environment, where councils had a clear understanding of when and where new development would occur. This predictability allowed them to plan infrastructure with reasonable accuracy, estimate financing costs, and set appropriate charges for each unit of growth capacity.

46. As growth becomes increasingly difficult to predict, and as the impact on both the immediate vicinity of new developments and the broader infrastructure network

becomes more difficult to assess in advance – or impossible in the case of widespread intensification – councils are expected to face worsening under-recovery.

47. The feasibility of adapting development contributions to a more responsive planning system is explored in Section 2.

Developers also expressed concerns about aspects of the development contributions system

48. While under-recovery was the key concern for councils, for developers, inconsistency was the biggest issue. When they were first introduced, development contributions were expected to set a price signal which would enable developers and the eventual owners of new properties to make investment decisions taking into account the growth cost of the assets required to service their development. As the planning system has become more enabling, and councils have been less able to predict where development will happen and plan infrastructure in advance, development contributions have become more volatile.

49. When developers assess the feasibility of development, the level of development contribution they will be required to pay will factor into their overall costs. Where development contributions increase sharply between the time a developer purchases land for development, and the time they apply for resource consent, (or between separate resource consents sought for different stages of development) the developer may no longer be able to secure finance.

50. While consistency was developers' biggest concern, they also expressed frustration at the lack of consistency between councils, which made it difficult to compare development opportunities in different places. The different way in which councils approach determining growth costs and assess demand on service on a per-dwelling basis make it difficult to build at scale across different locations in a cost-effective way.

51. Developers also expressed frustration with the lack of formal mechanisms for a "first mover" developer who provides, or funds the provision of, network infrastructure required to unlock land for development to recover costs from subsequent developers. The scale of network infrastructure assets means that what the first mover provides will usually benefit more than just their development. In a permissive planning system where councils may not be able to provide infrastructure at the time a developer wishes to pursue a development opportunity, developers who want to fund network infrastructure assets will need certainty that they will be able to recover a fair share of infrastructure cost from subsequent developers.

What is the policy problem or opportunity?

52. Changes in legislation and the operating environment have created uncertainty for councils regarding when and where growth will occur within their districts. As a result, development contributions – the primary tool for recovering the growth costs of infrastructure – are no longer effective. This is leading to significant under-recovery of costs, shifting the financial burden of growth from developers and new home owners onto the wider community.

53. This situation disincentivises councils to invest in and plan for future growth, as they face pressure from their communities to limit debt and minimise costs associated with growth-enabling infrastructure. Without effective funding tools, councils will struggle to support sustainable urban development, which in turn threatens the Government's objectives of increasing housing supply.

What objectives are sought in relation to the policy problem?

The Government is seeking to make growth pay for growth

54. This work is part of the *Improving infrastructure funding and financing* pillar (Pillar 2) of the Government's GfHG programme. GfHG is designed as a package to ensure more responsive development capacity shifts market expectations of future scarcity and brings down the price of land. This will support efficient urban development, increase housing supply, and lift productivity in our cities.

55. The Department and HUD are jointly leading the *Infrastructure Funding Settings* workstream. In March 2024 the Ministers of Housing and Local Government set the following primary objectives for the Infrastructure Funding Settings work:

- 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;
- improving incentives to zone land for additional housing and invest in infrastructure to facilitate additional housing supply;
- improving incentives to develop land in the near term instead of 'land banking'; and
- encouraging development that makes efficient use of infrastructure.

56. The following, secondary objectives were set to guide work on policy options:

- providing developers with certainty on how much they'll need to pay for growth infrastructure before commencing development;
- providing councils with certainty on the income they will receive from development contributions, which will enhance councils' ability to borrow against that income;
- minimising the cost, complexity, and litigation risk of administering tools which recover costs from developers (or owners of new houses);
- ensuring settings can deliver neighbourhoods and developments with adequate transport, water services, and community infrastructure; and
- giving effect to the Crown's responsibilities under Te Tiriti o Waitangi, by considering the implications of any proposed infrastructure settings changes for Māori housing.

57. The principle of "growth pays for growth" is articulated in the first objective. Providing councils with funding and financing tools which will allow better recovery of the growth costs of infrastructure is the pathway to making growth pay for growth in our cities and districts that need more housing.

58. Options developed under this workstream must support the objectives of the other pillars of the GfHG programme. Pillars 1 and 2 are expected to work together to moderate land prices, as explained by Cabinet papers taken by the Minister of Housing in December 2023 (CAB-23-MIN-0498 refers). Pillar 3 will complement Pillars 1 and 2 by improving the social license for housing growth.

59. The text below provides an explanation of the interaction between the pillars of GfHG in the *Fixing the Housing Crisis* Cabinet paper from the December 2023.

Narrative in the *Fixing the Housing Crisis* Cabinet paper	GfHG Pillar
60. My goal is to flood urban housing markets for Tier 1 and 2 councils with land for development. Abundant zoned and serviced land within and at the edge of our cities for housing will moderate land prices and increase competition among land-owners to stop land banking. As the scale of development opportunities increase, developers will have the confidence to build up their capacity.	1
61. Infrastructure should earn sufficient lifetime revenue from service charges to recover its whole-of-life costs. Where charges are credibly signalled in advance, they will be reflected in urban land prices by lowering the price a developer is prepared to pay for land.	2
62. Successful reform of housing will be experienced as a wave of prosperity, as the value capitalised in house and land prices shifts 'above ground' and effectively lifts disposable incomes as housing becomes more affordable.	All

63. The underlined text above is key to the System Coherence assessment criteria in Section 2. While the amount of cost recovery is important, how these costs are signalled and recovered is also important. As explored above in paragraphs 39-40, where a council is unable to recover growth costs through the development contributions regime, they may seek to recover these costs through targeted rates (targeted by geographic area) but these rates cannot be signalled in advance. For growth costs to be reflected in the price a developer is prepared to pay for land, they must be credibly signalled in advance of development.

Section 2: Deciding upon an option to address the policy problem

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

64. The options will be assessed against the following criteria:

- **Effectiveness**: Tools should enable local authorities to recover a greater share of the growth costs of infrastructure.
- **Administrative simplicity**: Tools should be as simple as possible to administer, ensuring council resource is used efficiently.
- **Predictability**: Developers and local authorities should be able to anticipate how much they will need to pay, and this should remain stable over time.
- **Fairness**: The interests of ratepayers, developers, and councils should be balanced to ensure that the tools result in a fair distribution of costs.
- **Efficient use of infrastructure**: Where a council (or another party) has provided infrastructure with growth capacity, the cost of this infrastructure will be efficiently recovered, and the capacity efficiently consumed. Funding and financing tools should also incentivise development to occur in low-cost locations, for example, by charging developers (or owners of new houses) the true cost of infrastructure.
- **System coherence**: Tools should work in alignment with the Government's GfHG objectives of increasing developable land for housing and moderating land prices – while also being compatible with the balance of the local government funding and financing system..

What scope will options be considered within?

65. 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: Development meeting the total costs of infrastructure assets

66. Options which would require developers to meet the cost of infrastructure maintenance or renewal were considered out of scope. The beneficiary-pays principle is explained in **Table 1: Alignment between beneficiaries, funding sources and drivers** after paragraph 12. Charges to developers will be proportionate to the growth costs of infrastructure only. To align with the principle of "growth pays for growth" and the overarching local government financial management requirements set out in Section 101 of the LGA02, we have only considered options which align growth costs with growth beneficiaries (new development).

OUT OF SCOPE: Eliminating or deprioritising up-front charges to development for the growth cost of infrastructure

67. In the December 2023 Cabinet paper *Fixing the Housing Crisis* Ministers set out expectations for how infrastructure costs would fit within the wider GfHG programme. The key text (as included at paragraph 61) is:

> *Pricing should play a greater role in infrastructure funding. Growth bottlenecks have emerged precisely where prices do not reflect costs. Infrastructure should earn sufficient lifetime revenue from service charges to recover its whole-of-life costs. Where charges are credibly signalled in advance, they will be reflected in urban land prices by lowering the price a developer is prepared to pay for land. Infrastructure charges also provide the revenue streams that are necessary to access infrastructure finance. Revenue sufficiency is the key*

principle that growth should pay for growth and provides confidence that infrastructure will be available when and where it is needed.

68. While growth paying for growth is the primary object of this policy, the timing of the charges is also important. The contribution that developers will need to make toward the cost of the infrastructure required to service their development must be credibly signalled in advance and (from the context) "in advance" means before the developer had made decisions about purchasing land for development. This is also clear from workstream objective to "provid[e] developers with certainty on how much they'll need to pay for growth infrastructure before commencing development".

69. Charging development contributions to developers (rather than recovering infrastructure costs over a longer period through targeted rates) is considered the most economically efficient way to allocate the growth costs of infrastructure. This is because developers are the most able to do something about the overall costs of development. Where development contributions are higher, a developer can offer less for the land, design housing that reduces demand on infrastructure (which can lower development contributions in some cases) or build more intensive housing to generate higher income from selling more units (where there is demand).

IN SCOPE: Changes to infrastructure funding and financing for both greenfield and brownfield developments

70. In April 2024, Ministers agreed to expand the scope of this work to cover brownfield and greenfield development, to mitigate the risk that developing different regimes for brownfield and greenfield development would create an uneven playing field and encourage inefficient development patterns.

IN SCOPE: New funding and financing tools and amendments to existing tools

71. The scope of this work programme covers amendments to all existing tools that can be used to require the beneficiaries of growth to contribute toward the growth costs of infrastructure, as well as new tools. Existing tools and the enabling legislation are in Table 4 below. This RIS covers recommended changes to development contributions and targeted rates, both of which fall within local government legislation. Changes to infrastructure funding and financing levies under the Infrastructure Funding and Financing Act 2020 are covered in a companion RIS which is being written by HUD.

Table 5. Tools within the scope of the funding and financing project and proposals covered in this RIS

Tool	Authorisation	In scope	Changes proposed	Included in this RIS
Development Contributions	Local Government Act 2002	✓	✓	✓
Targeted Rates	Local Government (Rating) Act 2002	✓	✓	✓
Infrastructure Levies	Infrastructure Funding and Financing Act (2020)	✓	✓	×
Financial Contributions	Resource Management Act 1991	✓	×	×
Infrastructure Growth Charges	Local Government (Auckland Council) Act 2009	✓	×	×

IN SCOPE: Limited changes to the types of infrastructure assets and capital expenditure for which growth costs could be recovered

72. Under the current development contributions system, growth costs can only be recovered for council capital expenditure on new or additional assets or assets of increased capacity for:

- Reserves;
- roads and other transport;
- water;
- wastewater;
- stormwater collection and management; and
- community infrastructure.

73. Ministers agreed that capital expenditure by parties other than territorial authorities (such as regional councils and developers) could be considered within the scope of this work as well as flood protection infrastructure, which is not in the above list of services for which development contributions can currently be recovered.

74. Table 6 illustrates the full scope of the project (including what is out of scope), broken down by type of infrastructure, parts of the network, and asset owners/operators.

Table 6. Infrastructure assets associated with new development in and out of scope

ASPECTS OF INFRASTRUCTURE		
TYPE OF INFRASTRUCTURE	**PARTS OF NETWORK**	**ASSET OWNERS / OPERATORS**
IN SCOPE for developing policy options		
Water services infrastructure (drinking water, wastewater, and stormwater)	• Headworks (e.g. wastewater treatment plant) • Trunk (e.g. pumping station) • In-subdivision See illustration in Annex D	• Territorial authorities • Regional councils
Transport (road, rail[8], other public transport, active transport)	• Transit corridors (including state highways) • Urban connectors • City hubs • Activity streets • Main streets • Local streets • City spaces • Rail includes tracks, stations, and rolling stock	• Territorial authorities • Regional councils • Central government • Private operators and landowners
Flood protection		• Regional councils and unitary authorities
Community infrastructure (e.g. parks, libraries)		• Territorial authorities • Regional councils
OUT OF SCOPE for developing policy options		

[8] Note that ownership arrangements for infrastructure networks differs between different places. Therefore, assets such as rail are listed against more than one type of asset owner.

ASPECTS OF INFRASTRUCTURE		
TYPE OF INFRASTRUCTURE	**PARTS OF NETWORK**	**ASSET OWNERS / OPERATORS**
While the provision of other utilities are important considerations for councils when planning for new development, funding and delivering these types of infrastructure is not a council responsibility. Critical social infrastructure, such as public schools and hospitals, is a core Crown funding responsibility as their provision benefits the wider community.		
Other utilities (e.g. electricity, telecommunications)		• Private entities • Publicly-owned utilities
Social infrastructure (e.g. education, healthcare)		• Private entities • Central government

What options are being considered?

75. We have considered three options:

- **Option One** – Counterfactual
- **Option Two** – Changes to development contributions which keep the causal nexus between groups of developments and particular infrastructure projects, and enhancements to targeted rates
- **Option Three** – Replacing the development contribution regime with a new development levy system along with enhancements to targeted rates **(preferred option)**

Option One – Counterfactual

76. In this scenario:

- the Government does not intervene to improve local government infrastructure funding settings in response to the shift towards a more responsive planning system;
- upcoming changes to planning and zoning requirements further increase the supply of developable land by introducing new housing growth targets for Tier 1 and 2 councils. (These targets require those councils to enable 30 years of feasible housing capacity in their district plans, using 'high' growth population projections);
- the responsiveness requirements in the NPS-UD which require councils to be enabling of private plan changers are strengthened; and
- residential and commercial developments are approved under fast-track processes, which limits councils' ability to plan the infrastructure required and have it in a development contribution policy in time to charge appropriate development contributions.

77. All the existing issues which mean councils under-recover through development contributions continue to exist. These reasons are explored in detail in

78. **Annex B: Detailed exploration of the issues with the current development contributions** regime. Ongoing changes to the planning system would likely see councils less able to recover through development contributions.

Effectiveness

79. Councils will continue to use existing tools to recover some of the growth costs of reserves, network infrastructure, and community infrastructure, and transfer unrecoverable growth costs to ratepayers. Primarily, this will involve development contributions, although a small number of local authorities prefer financial contributions or use a mix of both.

80. The NPS-UD, MDRS and now 30-year Housing Growth Targets require councils to increase developable land supply. While this gives developers choice, it also greatly reduces councils' certainty about when and where growth will happen. However, recent and upcoming changes to the planning environment are expected to exacerbate under-recovery unless changes are made to infrastructure funding tools.

Table 7. The effectiveness of maintaining the current settings

Which under-recovery drivers have been most affected by the ongoing shift towards a more responsive planning system?			Impact MORE↑ or LESS↓ of a problem
Category	Issue		
Problems with planning and prediction requirements	a.	Construction/infrastructure delivery cost inflation.	0
	b.	Land prices increasing more quickly than anticipated where council must acquire land for infrastructure.	0
	c.	The planning system's approach to intensification has made predicting the pace and spread of growth more difficult.	↑
	d.	Providing infrastructure to service the maximum probable density allowed by zoning, then developers choosing to provide lower density or staged development.	↑
	e.	The requirement to return any over-recovery to developers means policies err on the side of under recovery (due to difficulty identifying the correct party to refund)	0
Legislative constraints	a.	Development contributions must be charged according to the policy in place when an application is lodged, and the policy may not include all the infrastructure required to service the development in the application.	↑↑
	b.	Not all projects being identified in the planning process because consents were lodged as part of a private plan change (and development contributions must be charged according to the policy when an application is lodged).	↑↑
	c.	Third party funding cannot be targeted to cover non-growth costs.	0
	d.	Projects needing significant amendment as a growth area develops and/or as environmental standards change.	↑
	e.	Crown exemptions	0
Political reluctance	a.	A desire to keep development contributions as low as possible to incentivise growth (or certain growth projects).	0
	b.	A desire to set development contributions at a level that will be acceptable to developers and less likely to be challenged.	0

Which under-recovery drivers have been most affected by the ongoing shift towards a more responsive planning system?		Impact MORE↑ or LESS↓ of a problem
Category	Issue	
	c. Councils agree to remissions but do not provide funding to offset these.	0
Financing	a. Delays between development contributions assessments being issued and payment being made to council (from consents granted to project completion).	0
	b. Development contributions can only be charged on projects where the growth portion can be financed, and the non-growth portion can be funded.	↑

Administrative simplicity

81. Development contributions remain complex and costly for local authorities to use. Some small and low growth local authorities are not able to justify the cost of putting together a development contribution policy and will opt to use financial contributions or to not recover the growth costs of infrastructure.

Predictability

82. Development contributions will continue to "jump" when a council includes an infrastructure response to growth in their development contributions policy. This means that developments for which consents are lodged before the infrastructure response is in place will not pay their share of the growth costs, and subsequent development will be required to pay more for the same services. This also means that developers who purchase land on the basis that a low development contribution is required, may no longer be able to make the development economics stack up.

Fairness

Fairness for communities

83. As local authorities remain responsible for providing community facilities for new housing and business, existing communities (i.e. ratepayers) will bear a disproportionate burden of financing growth rather than developers or beneficiaries of new development.

Fairness for developers

84. Under the development contributions regime there is unfairness *between* developers as some developers can avoid paying their share of growth costs. This primarily occurs when developers lodge resource consents before infrastructure for an area is included in a development contributions policy. Where this occurs, developers developing within the same catchment will pay (often very) different amounts for the same services as early developers pay significantly less than later developers.

85. Developers may not be intentionally avoiding paying their full share of the cost of infrastructure, especially in brownfield areas. It is not clear from a councils' development contributions policy whether a development contribution in an area is low because no new infrastructure is needed to support growth (i.e. existing assets still have unused capacity) or because the council has not yet undertaken the necessary work to plan for growth in that area.

86. Most developers benefit from some form of third-party funding. The most common third-party funding is from the National Land Transport Fund (NLTF) which is forecast to contribute $7b to local road improvements, pothole prevention and operations over 2024-27, and most developments will benefit from this funding. However, some developers benefit from third party funding that is targeted to specific work programmes (such as funding from the Housing Acceleration Fund). This can give certain developments an unfair price advantage as they do not pay their share of

growth costs. When a third-party funder (including the Crown) provides funding for an infrastructure project with a growth component, councils distribute that funding across all project drivers.

Efficient use of infrastructure

87. Under current settings a council can only signal the cost of providing services to development in an area through committing to providing infrastructure assets in that area in their LTP or infrastructure strategy. If the assets needed to provide services to an area are more expensive than other areas, the development contributions will be higher. This "price signalling" is supposed to show developers where it is most cost effective to develop and thereby encourage development in areas where it is cheaper to provide services. However, if higher development contributions discourage development, after a council has invested in infrastructure assets, the council can be left holding debt for expensive, under-utilised infrastructure assets.

88. When the planning system was more restrictive, councils may have been able to avoid zoning areas which would require expensive infrastructure assets to provide one or more services, or only enable development in one such area at a time. Now, in a more permissive planning environment, councils are at risk of incurring significant debt for high-cost assets across multiple areas. This situation is most likely to arise where developers seek resource consent before the costs to service an area have been established (as was the case in Drury). In cases where resource consents are lodged before the assets required to service growth are included in a development contributions policy, early developers will pay a low development contribution which does not reflect growth costs. Subsequent developers would face a much higher development contribution, which may discourage further growth, leaving a council servicing debt for infrastructure that is being used inefficiently.

89. In a permissive planning system, once an infrastructure asset has been provided the most efficient use of that infrastructure is for the growth capacity that it provides to be consumed as quickly as possible. Likewise, once a council has spent money, or committed to spend money, on a project or projects, the most economically efficient option is to recover the cost as quickly as possible. The requirement for growth costs to be proportionate to the cost of infrastructure in the current system disincentives the efficient use of infrastructure.

System coherence

90. Placing a disproportionate burden of growth onto existing communities will likely result in weak incentives for local authorities to facilitate growth within their districts. Some local authorities close to their debt ceilings will also not be able to finance the growth costs of infrastructure. This could undermine the Government's GfHG objective of increasing housing supply within the context of New Zealand's ongoing rise in house prices.

Option Two – Changes to development contributions which keep the causal nexus between groups of developments and particular infrastructure projects, and enhancements to targeted rates

91. In this scenario, the Department would make changes to the development contributions regime while retaining the causal nexus between groups of developments and particular infrastructure projects. Where changes would not be sufficient to improve cost-recovery, councils would be able to use an enhanced targeted rate to recover growth costs from property owners paying rates on properties for which the development contribution charged did not recover a fair share of the growth costs of the infrastructure.

92. The changes to development contributions are a combination of changes suggested by councils, changes suggested by developers and changes identified by officials.

Possible Changes to Development Contributions

93. Changes to improve the functionality and consistency of development contributions which officials have explored are listed in the following table, and then each is explored in more details.

Table 8. Changes to improve the functionality of development contributions

List of changes considered	
A.	Clarifying that third-party funding can be targeted to growth or non-growth costs by the funding party;
B.	Enabling "first mover developers" to recover growth costs from subsequent development
C.	Enabling council expenditure on assets vested in a non-council party to be recovered
D.	Enabling development contributions to be charged for state highways where the benefit which accrues specifically to growth catchments within a council area can be determined.
E.	Setting a nationally consistent base unit and a prescribing methodology for councils to determine what proportion of the cost of infrastructure should be attributed to growth.
F.	Guidance regarding remissions and requirements to show how offsetting remissions will affect general rates;
G.	Enabling councils to recover the cost of financing development contribution charges between the date of invoice and the date of payment; and
H.	Clarifying the conditions under which an additional or updated development contribution can be charged due to amendments to a consent upon which the development contribution was based.

A. Clarifying that third-party funding can be targeted to growth or non-growth costs by the funding party;

94. Development contributions can only be used to recover costs that the council has incurred (or is going to incur – they can be charged when a project is planned but not started). Councils cannot collect more in development contributions than what they have spent for the growth portion[9] of the infrastructure project.[10]

95. Section 200 (1) of the Local Government Act 2002 (LGA 02) limits when a council can require a development contribution. Section 200(1)(c) states that a council:

> …must not require a development contribution for a reserve, network infrastructure, or community infrastructure if, and to the extent that…a third party has funded or provided, or undertaken to fund or provide, the same reserve, network infrastructure, or community infrastructure.

96. Officials' understanding is that Section 200(1)(c) was intended to prevent councils from "double dipping" and requiring development contributions where growth costs had been met by a third-party funder. Drafters of the legislation still working in the

[9] "The growth portion" in this context includes the cost of financing the growth costs and holding that debt until it is repaid through development contributions.

[10] Section 197AB(1)(b) of the LGA02 prohibits over-recovery of costs.

department state that the words "if, and to the extent that" were intended to enable funding to be targeted to one or more "drivers" of an infrastructure project.[11]

What is going wrong with third party funding

97. Most third-party funding comes from the Crown. This funding can come from general taxation, or from a fund like the National Land Transport Fund (NLTF). Section 200(1)(c) has been interpreted as requiring all third-party funding to be spread across all the drivers of an infrastructure project. In this interpretation, a third party has funded or provided a portion of the total project costs, so the overall project costs are reduced. This interpretation aligns with officials understanding of the intention of 200(1)(c) only in circumstances in which third party funding is not targeted to a particular driver (as is the case with NLTF funding which is dispersed on a per-project basis).

98. The current approach to third-party funding means that the beneficiaries of growth cannot be required to pay the full growth costs of an infrastructure project. It also means that if third party funder wants to reduce the cost to ratepayers by a certain amount, they will need to provide additional funding, to account for the proportion allocated to growth costs, which would otherwise by met by development. This is shown in the table below. If an infrastructure project was considered to benefit development and the existing population equally, and cost $100m and the council could only afford $20m towards the project, a third party would have to contribute $60m to make the project affordable for the council – and developers would benefit from paying $30m less in development contributions.

Table 9. The effect of untargeted third-party funding on the contribution required from growth beneficiaries.

		COST ALLOCATION (aligned with benefit)	**COST ALLOCATION WITH THIRD PARTY FUNDING** Current approach: third-party funding is always untargeted	
	Third-party funding	X	$30m (30%)	$60m (60%)
Drivers	**Non-growth** (funded through rates and charges on the existing community)	$50m (50%)	$35m (35%)	$20m (20%)
	Growth (funded from development contributions)	$50m (50%)	$35m (35%)	$20m (20%)
	Total project costs	$100m	$100m	$100m

99. If the third party funding was able to be targeted to non-growth drivers, only $30m of third party funding would be needed, as shown below. This would mean development could be required to meet the full growth costs of the infrastructure.

Table 10. The effect of targeting third-party funding to non-growth drivers

	COST ALLOCATION (aligned with benefit)	**COST ALLOCATION WITH THIRD PARTY FUNDING** Current approach untargeted	Targeted (to non-growth costs)
Third-party funding	X	$30m (30%)	$30m (30%)

[11] These drivers are also required features that a council must consider in its infrastructure strategy, LGA02 section 101B refers.

Drivers				
	Non-growth (funded through rates and charges on the existing community)	$50m (50%)	$35m (35%)	$20m (20%)
	Growth (funded from development contributions)	$50m (50%)	$35m (35%)	$50m (50%)
	Total project costs	$100m	$100m	$100m

100. Councils and government agencies have explored targeting funding to non-growth drivers to help communities overcome a "renewals backlog", but determined this approach could have legal risk. This has not been tested in court, but considering the delays and disruption to scheduled works that litigation could cause, we believe it is unlikely that a council would be willing to test this interpretation of legislation.

Consultation

101. In May 2024, Auckland Mayor Wayne Brown wrote to the Minister of Housing with a list of suggested legislative fixes. One of these was:

> *A top priority fix worth $650 million – stop deducting Crown grants meant to cover the non-growth portion of infrastructure from the amount that can be recovered in DCs [development contributions].*[12]

102. s 9(2)(f)(iv)

103.

B. Enabling "first mover developers" to recover growth costs from subsequent development

104. To unlock land for development, a "first mover developer" may provide network infrastructure or fund the provision of network infrastructure. The scale of network infrastructure assets means that what the developer provides will usually benefit more than just their development. Subsequent developers should pay their share of the cost of this infrastructure, as this helps to provide better incentives for developers to progress with timely development. There are no formal mechanisms to enable this in the current system.

[12] Due to changes made through Auckland Council's 2024 Long Term Plan, the $650m figure is no longer accurate.

105. It is rare for a single developer to have sufficient resources to be able to do this, but councils have provided examples where developers have worked together to fund infrastructure assets. In Tauriko West in Tauranga, the majority of the Tauriko West urban growth area is owned by three large developers (first movers), but the growth area also includes a number of smaller properties owned by smaller land owners. The large developers agreed to fund around $60m of the cost of the enabling infrastructure through a developer agreement. The smaller landowners are not party to the development agreement but will benefit from the enabling infrastructure if they develop their land.

106. There are no formal mechanisms to allow the first movers to recover a share of their $60m from the smaller landowners. The council can only recover the costs from the smaller landowners if they have incurred the cost (as in A, above, they cannot charge development contributions if a third party has met the costs). The only way the council could charge development contributions is if the debt were “theirs”. But that would require the council assuming the debt for the portion of the infrastructure that benefits the small landowners, and they may not be willing to assume the risk that the small land owners will not develop the land. Additionally, in this case, Tauranga City Council could not finance the infrastructure because they were near their covenanted debt limit with the Local Government Funding Agency. The council explored a number of options for this but asked the Department whether a formal mechanism could be incorporated into the LGA.

107. We propose a formal mechanism which allows the council to charge small landowners (or subsequent developers as the case may be) for infrastructure that has been financed or otherwise provided by a first mover, and to pass the recovered cost back to the first mover.

C. Enabling council expenditure on assets vested in a non-council party to be recovered

108. Currently, councils are unable to recover growth costs where the infrastructure asset is vested in a third party. Examples of this are community and sports facilities vested in community trusts or the Ministry of Education. This can discourage councils from entering into mutually beneficial arrangements with other parties, because they are not able to use development contributions to recover the growth costs.

109. An example of a council facility vested in another party is the Tawa recreation centre which is on Tawa college grounds, but available for community use and hire outside of school hours. Working together, the council and the Ministry are able to provide facilities that serve a wider community with a greater range of facilities, but no development contributions could at present be collected for such a project.

110. Another common example is council-funded roading projects enabling connection to state highways, which are vested in NZTA. Councils have expressed frustration that their contributions to roading works which have a sizeable growth benefit, such as connections to state highways that exclusively serve new development, must be paid by ratepayers.

111. We recommend allowing councils to include assets in the programme of leviable works when they contribute financially to the cost of infrastructure assets which provide growth capacity, whether or not the financial contribution sits on their balance sheet as capital expenditure.

D. Enabling development contributions to be charged for state highways where the benefit which accrues specifically to growth catchments within a council area can be determined

112. Enabling the use of charging tools like development levies and targeted rates for state highway funding is important to achieve efficient land markets. We have heard from councils that development follows state highways, because state highways are fully funded by the Crown – thus reducing development contribution liability. We have also

heard that some councils zone land for development alongside state highways to reduce the amount of roading they are required to fund.

113. Development following state highways may encourage sprawl that is inefficient to service once built. Enabling development contributions to be charged for state highways that benefit particular growth areas would "level the playing field" as developments dependant on state highways would meet roading costs in the same way as developments that depend on local roads. This should encourage more efficient patterns of development, possibly more focussed around public transport.

114. The process for the recovery of the growth portion of a non-council asset could be modified to enable a council to collect levies on behalf of NZTA, using the prescribed methodology to determine the benefit (and the cost) attributable specifically to a growth catchment. It is possible that when the wider beneficiaries of state highways are considered, growth levies may not make a significant contribution to the overall state highway budget.

E. Setting a nationally consistent base unit and a prescribing methodology for councils to determine what proportion of the cost of infrastructure should be attributed to growth

115. Councils currently have a lot of discretion to determine how "growth costs" are calculated and apportioned in their development contributions policy. This has led to each council developing their own terminology, templates and methods of calculation. Most high-growth councils use a unit like a HUE (household unit equivalent) to determine how much demand a dwelling generates. While many councils differentiate their charges, some do not, and charge a flat "per HUE" development contribution – meaning a granny flat is expected to pay the same development contribution as a five-bedroom house.

116. Standardisation would enable transparency and comparison between council area. It would allow large scale developers who work in more than one part of the country to compare opportunities and develop where it is most efficient.

117. A standardised process for determining what proportion of the cost of an infrastructure project would also allow comparison between council areas. Developers and councils have both commented that this would be useful to enable clarity for all parties involved in development.

F. Guidance regarding remissions and requirements to show how offsetting remissions will affect general rates

118. Councils have the ability to include remissions criteria in their development contributions policy. Remissions reduce development levies for certain types of development. This may be a partial reduction (for example a 50% remission) or remove the requirement to pay entirely (a full remission. Remissions are often provided by councils where there is a public benefit or social good element to the development. Common examples are community housing (provided by CHPs) and papakāinga developments on whenua Māori. The infrastructure costs that are not recovered when a development is granted a remission will usually be met by ratepayers.

119. Remissions for community housing and papakāinga developments are examples of remissions where the ratepayer community can meaningfully engage in consultation and understand why they are being asked to contribute. For example, Hutt City Council added a Development Contribution remission and rebate policy for community housing providers after community consultation on their 2024 LTP.

120. However, there are other forms of remissions which are used to encourage development of a certain type or in a certain area, and we have heard that the cost of these is not well understood by ratepayers. These include remissions to encourage high-rise buildings in central cities. It is important that both ratepayers and councils understand the cost of remissions and the effect these could have on rates.

G. Enabling councils to recover the cost of financing development contribution charges between the date of invoice and the date of payment

121. Theoretically, councils can choose to charge a development contribution when:

- a resource consent is granted under the Resource Management Act 1991 for a development within its district; or
- a building consent is granted under the Building Act 2004 for building work situated in its district (whether by the territorial authority or a building consent authority); or
- an authorisation for a service connection is granted.

122. Councils usually charge at the earliest opportunity, so they can begin recovering the debt they are holding for infrastructure at the earliest opportunity. However, the period between a development contribution charge being invoiced and it being paid can stretch into years. For this period, the developer is holding on to a lower development contribution rate (where rates are annually increased at the PPI[13] rate or go up with cost inflation to deliver infrastructure) but the council is incurring interest. Councils have asked for a way to recover this interest cost from developers, or to require developers to pay within a certain period.

H. Clarifying the conditions under which an additional or updated development contribution can be charged due to amendments to a consent upon which the development contribution was based

123. As above in G, councils will usually charge a development contribution at the earliest opportunity. Developers will also submit their resource consent at the earliest opportunity to lock in the development contribution rate they expected when they determined the viability of development. Councils cannot charge another development contribution at a later stage (no matter how much the cost of infrastructure provision has increased) unless "the further development contribution is required to reflect an increase in the scale or intensity of the development since the original contribution was required."

124. We have heard that guidance is needed regarding how this policy can be used, where developers' plans can change between resource consent and building consent, and development contribution charges can markedly increase when policies are renewed. Councils need certainty that they are charging correctly to avoid costly litigation which can delay development and use ratepayer resources.

What would these changes mean for effective cost recovery through development contributions?

125. Each of the changes listed above would make some difference to a council's ability to recover their costs, but none would make up for the difficulty in planning and costing in an environment where developers can choose to build in more places than a council can possibly set development contributions at the level of full cost recovery. As previously discussed, councils can only charge development contributions for infrastructure planned in advance of growth, and councils can only plan to provide as much infrastructure as they can fund and finance, therefore it is not possible to plan infrastructure in every possible location where development will be enabled.

126. Development contributions require a causal nexus between a development or group of developments and new infrastructure assets or infrastructure assets of increased capacity that provide growth capacity for those developments. These assets must be in a development contributions policy at the time that an application for a resource consent, building consent, or service connection is submitted to the council.

---

[13] **PPI** means the Producers Price Index Outputs for Construction provided by Statistics New Zealand, Under Section 106(2C) of the LGA, development contributions can be increased in line with PPI without consultation.

127. We considered making changes to the process for setting development contributions, by enabling councils to:

- Charge a "top up" development contributions that reflected the updated infrastructure costs if a developer had not paid a contribution within a reasonable period of time.
- Charging development contributions based on the policy in place when a resource consent, building consent or service connection was *approved* enabling councils to make changes to their development contribution based on applications received.

128. These changes would have a significant impact on the ability of development contributions to recover the growth costs of development. However, we determined that these changes would not fit with the Ministerial direction that charges to developers must be credibly signalled in advance of development. We considered that the uncertainty around the costs a developer may be required to meet could hamper development overall as developers would find it harder to access finance.

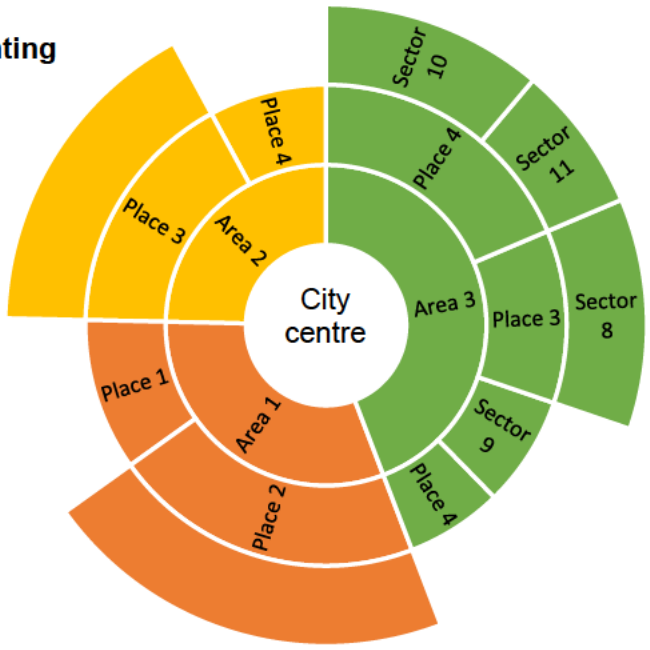
Can development contributions work with more land zoned for development?

129. When councils are required to zone for 30 years of residential development, it will not be possible to include all the infrastructure assets required for development in every location where development is enabled in a development contributions policy. Determining what infrastructure would be needed to service an area is a costly exercise and a council cannot recover the cost of this determination from developers – the cost of planning can run into millions of dollars and falls to ratepayers.

130. Additionally, the cost of providing infrastructure to an area is highly dependent on what else has been provided –the sequence of development. A development contribution policy must show the cost to develop in each location. It is not flexible enough to have a range of costs to develop in a location and dependencies which determine the costs. For example, if the donut graph below were an urban area, the cost to develop in **Sector 11** would depend on:

- the usual factors such as topography and the expected pace of development (which determines the financing period) and
- whether Area 3 and Place 4 had already been developed and the connecting infrastructure was already in place,
- whether Sector 10 and Sector 8 are likely to develop in a timeframe which would make it much cheaper for Sector 11 developers if infrastructure for all three Sectors were provided at the same time.

Figure 1: Donut chart representing growth areas



131. Councils cannot, and should not, provide 30 years' worth of infrastructure-serviced growth capacity. Not only would such infrastructure provision be extremely costly to build and finance, but much of the network would be unused for a long time. Building infrastructure that may not be used for 25 years would make the development contributions on those assets unaffordable due to the interest costs ($70,000 in growth costs, held for 25 years would be $244,000) but it would also be a constant drain on ratepayers as the operating costs and maintenance would need to be kept up, without a corresponding increase in the ratepayer base.

132. The most efficient way to provide infrastructure is to provide it as close as possible to the time that the land is developed. And the best time to determine the cost of infrastructure is as close as possible to the time that the infrastructure will be built. If costs are estimated too far ahead of time, the estimates become a minimum (especially when projects involve purchasing land and the owner develops an expectation based on the project estimate). Conditions and requirements also change from the time that a project cost is estimated and the project begun.

133. In conclusion, while some amendments to the existing system could make incremental improvements it appears that there are no ways that we can see to amend development contributions which would both:

- make growth pay for growth; and
- credibly signal charges in advance of development.

Enhanced Targeted Rates

134. Alongside these changes to development contributions, we could enable targeted rates to be used to recover the growth costs of infrastructure from developments which did not pay their share of the growth costs of the infrastructure that supports their development through their development contribution.

135. Targeted rates are a property tax councils use to charge a particular group of ratepayers for an activity or service that specifically benefits them. Schedules 2 and 3 of the LGRA02 already give councils considerable scope and flexibility to:

- identify a group of ratepayers to charge a targeted rate, based on a range of categories of ratable land (Schedule 2); and
- calculate the level of charge based on a range of factors (Schedule 3).

136. This enhancement would add 'rating unit creation date' to the list of categories of rateable land councils may use for setting a targeted rate (Schedule 2 of the LGRA02). Used in combination with other categories in Schedule 2, such as 'where the land is situated', will enable councils to precisely identify which properties should pay a targeted rate to recover growth costs.

137. The 'rating unit creation date' category would give councils the ability to exclude older or existing properties within a particular area from a targeted rate for infrastructure growth costs. In greenfield developments, it would also give councils the ability to differentiate between progressive stages of development when charging a targeted rate.

138. When a council updates a development contribution policy to include all the infrastructure required to service growth in an area, or when the council recalculates development contributions to cover higher than expected asset construction costs, it could set a targeted rate on the properties which have already been charged a development contribution which is now known to be too low to cover the full growth costs of the infrastructure. This would prevent the transfer of growth costs to the general rate and align it with growth beneficiaries. While this would enable councils to recover growth costs, it would introduce inequity and inefficiency to the system as outlined below.

Effectiveness

139. In this scenario, development contributions remain a cost recovery mechanism with a tight link between growth costs and individual charges. Specific amendments would address some factors contributing to under-recovery but ongoing changes to the planning system would continue to erode councils' ability to plan infrastructure ahead of growth.

140. The introduction of a new targeting tool for targeted rates would enable councils to recover growth costs from the properties which paid insufficient development contributions. Councils with rating systems capable of the complexity this could entail (neighbouring properties which were consented at different times could be liable for different targeted rates) could theoretically set a targeted rate to recover a much greater proportion of growth costs from each unit of development.

Table 11. The effectiveness of Option 2 in improving cost recovery

Which under-recovery drivers would be **improved by Option 2** in the context of a more permissive planning system?		Impact of changes to **development contributions**	Impact of enhancement to **targeted rates**	**Status quo** comparison
Category	**Issue**	MORE ↑ or LESS ↓ of a problem		
Problems with planning and prediction requirements	a. Construction/infrastructure delivery cost inflation.	0	↓	0
	b. Land prices increasing more quickly than anticipated where council must acquire land for infrastructure.	0	↓	0
	c. The planning system's approach to intensification has made predicting the pace and spread of growth more difficult.	↑	0	↑
	d. Providing infrastructure to service the maximum probable density allowed by zoning, then developers choosing to provide	↑	0	↑

Which under-recovery drivers would be **improved by Option 2** in the context of a more permissive planning system?		Impact of changes to **development contributions**	Impact of enhancement to **targeted rates**	**Status quo** comparison
Category	**Issue**	MORE ↑ or LESS ↓ of a problem		
	lower density or staged development.			
	e. The requirement to return any over-recovery to developers means policies err on the side of under recovery (due to difficulty identifying the correct party to refund).	0	0	0
Legislative constraints	a. Development contributions must be charged according to the policy in place when an application is lodged, and the policy may not include all the infrastructure required to service the development in the application.	↑↑	↓	↑↑
	b. Not all projects being identified in the planning process because consents were lodged as part of a private plan change (and development contributions must be charged according to the policy when an application is lodged).	↑↑	↓	↑↑
	a. Third party funding cannot be targeted to cover non-growth costs.	↓	0	0
	b. Projects needing significant amendment as a growth area develops and/or as environmental standards change.	↑	↓	↑
	c. Crown exemptions	0	0	0
Political reluctance	a. A desire to keep development contributions as low as possible to incentivise growth (or certain growth projects).	0	0	0
	b. A desire to set Development contributions at a level that will be acceptable to developers and less likely to be challenged.	0	0	0
	c. Councils agree to remissions but do not provide funding to offset these.	↓	0	0
Financing	a. Delays between development contributions assessments being issued and payment being made	↓	0	0

Which under-recovery drivers would be **improved by Option 2** in the context of a more permissive planning system?		Impact of changes to **development contributions**	Impact of enhancement to **targeted rates**	**Status quo** comparison
Category	**Issue**	MORE ↑ or LESS ↓ of a problem		
	to council (from consents granted to project completion).			
	b. Development contributions can only be charged on projects where the growth portion can be financed, and the non-growth portion can be funded.	↑	0	↑

Administrative simplicity

141. Within the development contributions system, some efficiencies could be gained from the proposed changes. However, at a wider cost-recovery level, relying on targeted rates to target individual properties depending on the date at which their development contribution was assessed could create a highly complex system. It would be extremely difficult to administer such a system, which would likely require additional personnel to operate. When this idea was tested with councils, one stated:

> *Applying targeted rates with a temporal aspect would be so administratively complex. It could become more and more complicated - practically every single property would need to be individually assessed. Additional people in the rates department would be needed.*

Predictability

142. First-mover developers who want to "unlock" land for development by funding network infrastructure assets would have more certainty that they would be able to recover a proportion of growth costs from subsequent developers. For other developers, there may be some improvement in the predictability of development contributions as councils implement a standard methodology for the attribution of costs to growth in legislation change in predictability from the counterfactual.

143. For the buyers of new homes there would be huge uncertainty and unpredictability. Someone who bought a new home off plans or early in the development of an area might be met with a large targeted rate a few years on, once the costs for all the infrastructure serving the development were known. For banks, offering a mortgage on a property that could be subject to an additional targeted rate would be risky as it would be difficult to gauge whether the mortgagee's income would be sufficient to cover repayments. This could make it more difficult to secure a mortgage in a greenfield development.

Fairness

Fairness for communities

144. If a council was unwilling or unable to implement a targeted rates regime that would recover the difference between the development contribution paid on a property and the remaining growth costs, growth costs would likely continue to be transferred to ratepayers. As outlined previously, this means ratepayers are meeting the costs for benefits that accrue to new development, as well as meeting the costs for benefits that accrue to the existing community.

Fairness for the owners of new properties

145. If a council did pursue growth costs through targeted rates using the 'rating unit creation date' mechanism, this could be perceived as unfair to the owners of the new properties required to pay the targeted rate. The targeted rate may not be known at the time the developer sells the property to the new owner and would therefore not be

factored into the price the purchaser pays. It is possible that where the future targeted rate is not known, two otherwise identical properties (one with and one without a targeted rates liability due to the development contribution paid) could sell for the same amount, only for one homeowner to be charged an additional rate.

Fairness for developers

146. There would be limited change to the unfairness between developers under a revised development contributions regime, as some developers would still be able to avoid paying their share of infrastructure cost through lodging resource consents before infrastructure for an area is included in a development contributions policy. Developers developing within the same catchment would still pay (often significantly) different amounts for the same services as early developers pay significantly less than later developers. As above, the council could seek to recover the difference between the amount paid by early and later developers through targeted rates on the new owner, but unless early developers sell the properties for significantly less, this is unfair for new homeowners.

Efficient use of infrastructure

147. The proposed changes to development contributions could make first mover developers more willing to provide network infrastructure, if they can be confident subsequent developers will pay their share of the growth cost. However, we do not expect this to markedly improve the efficient use of infrastructure or efficient cost recovery for infrastructure once it has been provided.

System coherence

148. Where growth costs are met by existing communities, councils will continue to have weak incentives to facilitate growth within their districts. Where development contributions for a particular area are far too low to support development (because a council is not expecting development in that area) developers will not be able to take the growth costs of infrastructure into account when purchasing land. Recovering growth cost through targeted rates would not put downward pressure on land prices, as these costs would not be known at the appropriate point in development.

Option Three – Introduce a development levy system and enhancements to targeted rates (preferred option)

149. Enabling councils to better recover the growth costs of infrastructure will require new tools which can fund growth flexibly and respond to demand for infrastructure in a more responsive planning system. We recommend establishing a levy system to replace the current development contributions regime as the primary tool for recovering growth costs.

Introducing a development levy

150. The proposed levy system would shift the causal nexus away from groups of developments and particular infrastructure projects to a new nexus between all development and aggregate growth costs across an area. This would allow councils to recover a much greater proportion of the growth costs of infrastructure from the appropriate beneficiaries and respond flexibly to demand for infrastructure with growth capacity.

151. The proposed levy system would retain some important features of development contributions which link growth costs to the beneficiaries of growth:

- It would only be charged where the aggregate effect of development requires capital expenditure for new or additional assets or assets of increased capacity required to account for growth;
- It would be a cost recovery mechanism for capital expenditure already incurred in anticipation of development, and future capital expenditure to enable or respond to growth; and

- The levy calculation would be supported by a programme of works that are being funded in whole or in part by the levy.

152. Key features of the proposed new development levy would include:

- Separate levies would be maintained for each service, (transport, water, wastewater, stormwater, community infrastructure and reserves);
- Each urban centre or town would be a discrete levy zone;
- Local authorities would have discretion to charge an additional levy if providing a service to part of the levy zone requires infrastructure assets with particularly high growth costs;
- Levies would be calculated based on aggregate growth costs and expected growth in each levy zone;
- Levy calculation would use standardised growth units and a prescribed methodology to determine growth costs; and
- Development outside a levy zone could be managed through a developer agreement or a levy assessment.

153. Further detail on these features can be found in **Annex C.**

The key point of difference for the levy system is aggregating growth costs

154. The change which we expect to have the biggest impact would be enabling councils to recover aggregate growth costs. Proposed aggregate growth costs would include past and future costs and costs incurred in *response to growth* – currently known as "unanticipated growth costs". The left column of the table below shows the costs that we propose be included in aggregate growth costs. The right column shows how this is different to the current development contributions regime.

We propose that aggregate growth costs will cover:	Is this a change?
155. Actual past costs, i.e., remaining growth-related costs yet to be recovered for assets in a council's programme of works that are being funded in whole or in part by the levy;	**No** – these are recoverable from development contributions
156. Previously unanticipated growth costs incurred by councils due to cost escalation, a growth backlog, out-of-sequence development or private plan changes; and	**Yes** – these are **not recoverable** from development contributions
157. Anticipated costs for projects in councils' long-term plans, which look forward 10 years, and projects in years 11-30 of infrastructure strategies.	**No** – these are recoverable from development contributions

Recovering unanticipated growth costs is vital to the success of a levy system's ability to improve fairness and recover costs

158. Under the development contributions regime, unanticipated growth costs cannot be recovered. Under the levy system, not only would unanticipated costs be recoverable, they would be *expected*. In a more permissive resource management system with far more opportunities for growth than can be used in the short or medium-term, councils would not expect growth patterns to conform to their forecasts. Councils would be able to flexibly use levy funds to provide services in the most efficient manner across the levy zone to respond to growth.

159. Only a broad base levy system could recover unanticipated growth costs in a way that could be reflected in urban land prices. A broad base levy which incorporates unanticipated growth costs into the aggregate costs so they are factored into "up front charges" could be taken into account by a developer at the time they purchase land for development.

Examples of unanticipated growth costs	How much of an issue will this be?
160. Cost escalation – the council knows it will need to acquire land for an access road and a pump station for a greenfield development, but it does not plan to build until year 18 of the infrastructure strategy, so will not acquire land until the project is included in its long-term plan which covers years 1-10. Whatever cost projection the council uses becomes the minimum the landowner will accept.	We expect this to be **slightly decreased** under the levy system. Land costs may not escalate as they have, but variable construction costs or changes in response to transport and environmental standards would remain.
161. Growth response – the council did not expect so much intensification (infill housing) in suburb A, so did not plan to upgrade the stormwater system or intersections for the busiest roads going in and out of the suburb. The council had planned these upgrades for suburb B, which will not need them in the short term.	We expect this type of "unanticipated" cost to **greatly increase** as the resource management system becomes more permissive. Growth response is often referred to as "backlog" by councils, because there is a "backlog" of growth that needs an infrastructure response.
162. Private plan changes – under the development contributions regime, the infrastructure needed for private plan changes can only be inserted into a development contribution policy. Developers who lodge their consents before consultation concludes will not pay for any of the added infrastructure.	We expect this to **greatly decrease** under the levy system. The levy system would enable negotiations between councils and developers to ensure beneficiaries meet costs – see paragraph □ above, and 126a.da.d below.

163. The levy system would also implement some of the changes to the development contributions system which were considered in Option 2, as below:

Table 12. Additional amendments to improve the functionality of a development levy

Amendment considered
A. Clarifying that third-party funding can be targeted to growth or non-growth costs by the funding party;
B. Enabling "first mover developers" to recover growth costs from subsequent development;
C. Enabling council expenditure on assets vested in a non-council party to be recovered;
D. Enabling development contributions to be charged for state highways where the benefit which accrues specifically to growth catchments within a council area can be determined

Enhanced target rates would work differently alongside a development levy

164. Development levies and targeted rates could be used in conjunction to equitably recover the costs of an infrastructure project that benefits both new and existing rating units within a town or urban centre (rather than across an entire district). A new 'rating unit creation date' category described at paragraphs 79-81 would give councils the ability to exclude new properties (for example infill housing) from a targeted rate.

New properties would pay their share of growth costs through the development levy, and existing properties could be charged a targeted rate.

Effectiveness

165. This is likely to be the most effective option for recovering a much greater proportion of the growth costs of infrastructure from beneficiaries of growth. Recovering the costs of responding to growth as part of a levy that is charged at the point a consent is granted would recover growth costs over a shorter period than a targeted rate (as in Option 2) and thereby reduce financing costs and free up council financing capacity more quickly.

Table 13. The effectiveness of Option 3 in improving cost recovery

Which under-recovery drivers would be **improved by Option 3** in the context of a more permissive planning system?			Impact of **development levies**	**Status quo** comparison
Category	**Issue**		MORE↑ or LESS↓ of a problem	
Problems with planning and prediction requirements	a.	Construction/infrastructure delivery cost inflation.	↓	0
	b.	Land prices increasing more quickly than anticipated where council must acquire land for infrastructure.	↓	0
	c.	The planning system's approach to intensification has made predicting the pace and spread of growth more difficult.	↓	↑
	d.	Providing infrastructure to service the maximum probable density allowed by zoning, then developers choosing to provide lower density or staged development.	↓	↑
	e.	The requirement to return any over-recovery to developers means policies err on the side of under-recovery (due to difficulty identifying the correct party to refund).	N/A	0
Legislative constraints	a.	Development levies must be charged according to the policy in place when an application is lodged, and the policy may not include all the infrastructure required to service the development in the application.	↓	↑↑
	b.	Not all projects being identified in the planning process because consents were lodged as part of a private plan change (and development levies must be charged according to the policy when an application is lodged).	↓	↑↑
	c.	Third party funding cannot be targeted to cover non-growth costs.	↓	0
	d.	Projects needing significant amendment as a growth area develops and/or as environmental standards change.	↓	↑
	e.	Crown exemptions	0	0

Which under-recovery drivers would be **improved by Option 3** in the context of a more permissive planning system?		Impact of **development levies**	**Status quo** comparison
Category	**Issue**	MORE↑ or LESS↓ of a problem	
Political reluctance	a. A desire to keep development levies as low as possible to incentivise growth (or certain growth projects).	↓	0
	b. A desire to set development levies at a level that will be acceptable to developers and less likely to be challenged.	↓	0
	c. Councils agree to remissions but do not provide funding to offset these.	↓	0
Financing	a. Delays between development levy assessments being issued and payment being made to council (from consents granted to project completion).	↓	0
	b. Development levies can only be charged on projects where the growth portion can be financed, and the non-growth portion can be funded.	0	↑

Administrative simplicity

166. Councils would be able to set levies for transport, water, wastewater, stormwater, community infrastructure and reserves, and use the funding within each levy account to provide service in the most efficient sequence to service development.

Predictability

167. We propose that for each levy zone, levies would be calculated based on aggregate growth costs and expected levels of growth. This is to account for the "chunky" nature of the provision of network infrastructure. Many infrastructure assets can only be provided in a cost-effective manner when built at scale and will enable considerable growth. This cost needs to be spread across past and future beneficiaries. Looking forward as well as backward will allow for more consistent charges.

168. In line the with above proposal, we expect a levy system would be much more stable than the current development contributions regime. We do not expect levies would double or triple in the way that development contributions for some catchments have doubled or tripled as councils have added infrastructure assets to their development contributions policies.

Fairness

Fairness for communities

169. Where growth costs are met by development, this could have a moderating effect on rates, as growth costs will not need to be recovered through general rates.

Fairness for the owners of new properties

170. Owners of new properties will have clarity about what costs they are required to meet at the time they purchase the property. For most new owners, this will be the same as the status quo. For those who would be subject to targeted rates to recover growth costs under the status quo (see paragraphs 39-40) this could improve affordability and predictability.

Fairness for developers

171. There are fairness trade-offs in moving from development contributions to a development levy. A levy is expected to increase fairness for existing communities by reducing the quantum of growth costs ultimately met through general rates. However, it may lead to unfairness between developers:

- Under the development contributions regime each development (theoretically) pays the growth costs of the infrastructure that their development benefits from. Where development contributions reflect the cost of providing infrastructure with growth capacity, this means development contributions are lowest in areas where infrastructure is cheapest to provide, or where there is existing capacity in assets that have already been paid for. However, as detailed above, often development contributions cannot reflect the cost of growth, and changes to the planning system will exacerbate this.
- Under a levy system, all developers would be required to pay a proportion of the costs of all growth. While this may enable a higher proportion of growth costs to be recovered from development overall, it could lead to unfairness between developers who build in areas cheaper to service and developers who build in areas that require expensive infrastructure.

172. While the detailed policy work is yet to be done, officials are confident that this can be somewhat mitigated to an extent through the following proposed levy features:

Levy feature	Impact
• Local authorities will have discretion to charge an additional levy if providing a service to part of the levy zone requires infrastructure assets with particularly high growth costs.	Where an area zoned for development will be particularly expensive to provide with one or more services, councils can charge an additional levy for that service. For example, if enabling development in a greenfield area requires a new bridge that is so expensive that its inclusion in the transport levy schedule of works would raise transport levies across the entire levy zone, that area could be subject to an additional transport levy.
• Levy calculation will use standardised growth units and a prescribed methodology to determine growth costs.	A nationally consistent base unit underlying all levy calculations and a prescribed methodology for councils to determine what proportion of the cost of infrastructure should be attributed to growth will enable transparency, so levies can be compared across services and between levy zones and council districts. This would also be necessary to enable policies requiring councils to scale the charges that apply to different sizes and densities of homes.
• Development outside a levy zone can be managed through a developer agreement or a levy assessment.	Where a developer seeks consent to develop outside the levy zone, they will be required to meet the cost of providing services to their development. This will prevent the unfairness that previously arose where developers could avoid paying the full cost of infrastructure provision through lodging consents before infrastructure costs for an area are known.

Efficient use of infrastructure

173. Under a levy system, councils would be able to respond to growth, providing assets in the places they are needed when they are needed. Levies will not be tied to specific infrastructure assets, but able to be used flexibly to fund infrastructure assets which

provide the service for which they are collected - transport, water, wastewater, stormwater, community infrastructure and reserves. The council would be able to determine the best sequencing of infrastructure provision across the entire levy zone to match the impact of development and maximise the efficient use of growth capacity. The only circumstances in which levies would not be used flexibly across a full levy zone, would be where a council used their discretion to charge an additional levy to provide a service to part of the levy zone which required infrastructure assets with particularly high growth costs.

174. From a pricing point of view, the levy system would also remove the incentive on developers to lodge resource consents for areas where the cost of the assets required to provide growth capacity is not yet clear. Instead of being required to pay a smaller amount towards growth costs, developers seeking consent for an area where council has not costed and planed the provision of infrastructure with growth capacity (like Drury at the time a private plan change was granted) will pay at least as much as developers in areas where growth costs have been determined. Where a developer is seeking consent for development outside the levy zone, there will be processes to ensure growth costs are recognised.

System coherence

175. This option has been designed to respond to changes made to the planning system under the NPS-UD, MDRS and 30-year Housing Growth Targets which all require councils to increase developable land supply beyond their ability to provide infrastructure to support development.

176. Water service providers (such as water council-controlled organisations) will also be able to set levies for the provision of water services whether or not the council or councils they service choose to use development levies.

177. Development levies will be a tool through which water service providers meet their financial sustainability objectives which include an expectation that aggregate water revenues will be adequate to cover ongoing needs, including supporting demand growth.

KEY		
	++	much better than doing nothing/the status quo/ counterfactual
	+	better than doing nothing/the status quo/counterfactual
	0	about the same as doing nothing/the status quo/ counterfactual
	-	worse than doing nothing/ the status quo/ counterfactual
	- -	much worse than doing nothing/the status quo/ counterfactual

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

	Option One – Counterfactual	Option Two – Changes to development contributions and enhancements to targeted rates	Option Three – Introducing a development levy and enhancements to targeted rates (preferred option)
Effectiveness	0 Local authorities will continue to recover low levels of the growth costs of infrastructure.	++ Targeted rates could enable councils to recover a much greater proportion of growth infrastructure costs from beneficiaries.	++ Local authorities will have fit-for-purpose tools to recover a much greater share of the growth costs of infrastructure.
Administrative simplicity	0 Development contributions are complex and costly for local authorities to use. Existing targeted rates mechanisms do not enable effective recovery from beneficiaries.	- It would be difficult to administer a system heavily reliant on targeted rates, which would likely require additional personnel to operate.	+ Councils will be able to set levies for each infrastructure type and use the funding within each levy account to provide service in the most efficient sequence.
Predictability	0	- Uncertainty would increase for new home buyers as they may face large targeted rates. This could also impact the confidence of mortgage lenders.	+ We expect a levy system to result in more predictable and stable charges than the current system.
Fairness	0 Existing communities will continue to bear some burden from growth costs.	0 Future targeted rates may not be known when a developer sells a property, so they may not be factored into the price. This could lead to unfair outcomes for future homeowners.	+ Beneficiaries of growth will pay a much greater share, reducing the burden on existing communities.
Efficient use of infrastructure	0	0	+ Councils have flexibility to deliver to meet demand
System Coherence	0 Incentives for local government to encourage growth remain weak.	- Uncertainty about future targeted rates may make lenders more cautious, which could reduce the availability of affordable housing.	+ Incentive for local authorities to facilitate growth is improved.
Overall assessment	0	0	++

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

178. Compared to the counterfactual, Option Three - Replace development contribution with a new levy system along with enhancements to targeted rates – best meets the criteria and is the Department's preferred option.

179. Option Three is also the most ambitious option considered and will require significant further policy work, as well we significant implementation support.

What are the marginal costs and benefits of the option?

Affected groups *(identify)*	**Comment** nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	**Impact** $m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	**Evidence Certainty** High, medium, or low, and explain reasoning in comment column.
Additional **costs** of the preferred option compared to taking no action			
Developers	This is likely to increase the growth cost which are passed to developers. The change in charges to developers will depend on whether the current development contribution for the land they propose to develop is appropriate to meet the growth costs of the required infrastructure. Where current charges reflect costs, the increase in charges may be low. Where charges do not accurately reflect infrastructure costs, or where the area has very low growth costs, they will see a higher cost increase. When Hutt City Council proposed a large increase in development contributions, developers provided evidence that this would affect the viability of development on land that had already been purchased. There is similar evidence where Auckland Council proposed increases in development contributions in the Drury area. Proposals to manage these transitional issues are included below (see paragraphs 184-197).	**Medium in the short term**. Where developers have already purchased land, higher development contributions may impact the feasibility of development. **Low in the long term**. We expect increased development costs will flow back into lower land purchase costs. Developers' willingness to pay for land will be adjusted to reflect the higher development costs they incur.	**Medium**.

Affected groups *(identify)*	**Comment** nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	**Impact** $m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	**Evidence Certainty** High, medium, or low, and explain reasoning in comment column.
Additional **costs** of the preferred option compared to taking no action			
Owners of new properties	Development levies are (usually) paid by a developer before a house is sold. They are capitalised into the overall cost of a new property. We expect that development levies will be capitalised into the price of land over the longer term. This aligns with research undertaken by HUD and Auckland council (see paragraphs 185-187)	**Low**. We do not expect the price of new properties to increase as a result of a higher proportion of growth charges recovered from development. This is because prices are set based on what the market will bear rather than cost-plus.	**High**. as below (see paragraphs 185-187).
	If targeted rates are used to recover growth costs, the impact on owners of new properties will depend on the time at which the targeted rate is set. We have some evidence that targeted rates can affect mortgage lending, but more research on this topic is needed.	**Low to medium**. Where targeted rates are known before a property is purchased, this could impact the amount that a bank will be willing to lend on a property (as higher rates could impact a mortgage holder's ability to pay). Where targeted rates are set after purchase, this could impact household budgets and affordability.	**Medium**.
Ratepayers	We do not expect additional costs to ratepayers. If growth costs are met by development, there will be no additional costs to ratepayers.		**High**.
Councils (territorial authorities)	In the short term there will be transitional costs to councils and systems are adjusted to accommodate new charging mechanisms. The transitional cost to smaller councils may be proportionately larger than the cost to larger councils, but a staged rollout of the levy system may enable smaller councils to adopt processes developed by the first cohort of councils, which may lessen the cost. Where councils are able to recover a greater proportion of growth costs from development, they	Dependant on detailed policy design – to be determined through consultation.	**Low**.

Affected groups *(identify)*	**Comment** nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	**Impact** $m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	**Evidence Certainty** High, medium, or low, and explain reasoning in comment column.
Additional **costs** of the preferred option compared to taking no action			
	will need to finance these costs ahead of recovery this will require more financing headroom. The detail of the changes to the NPS-UD is yet to be worked through and detailed design work is yet to be done, and consultation has been limited to subject matter experts at selected high-growth councils.		
Third-party funders (including the Crown)	Where third party funders choose to target their funding to one or more drivers, there may be additional work to provide robust rationale for targeting. We have discussed this change with Kainga Ora and NZTA. s 9(2)(ba)(i) NZTA see high transaction costs, but their use of targeting will depend on Ministerial direction.	**Low to medium**. This would have minimal costs for Crown agencies distributing a small number of large grants s 9(2)(ba)(i) but potentially higher costs for agencies distributing a larger amount of smaller grants (such as NZTA with NLTF funding).	**Medium**.
Total monetised costs	This change transfers costs from ratepayers to development, to align cost with benefit. The overall costs of the system should reduce slightly with administrative efficiency, but this will be a cost shift, not a major change in overall costs.	**Low**	**High**
Non-monetised costs	**Low**	**Low**	**Low**

Affected groups *(identify)*	**Comment** nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	**Impact** $m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	**Evidence Certainty** High, medium, or low, and explain reasoning in comment column.
Additional **benefits** of the preferred option compared to taking no action			
Developers	We expect the development levies to be more stable than development contributions, which will allow developers to plan with more certainty. First mover developers will be able to fund network infrastructure with certainty that councils can recover growth costs from subsequent developers and pass these back. Detailed design work is yet to be done. While we anticipate that sharing growth costs across levy zones, and across time (through incorporating unanticipated growth costs from the previous levy period into a new levy) will result in more stable and predictable levies, modelling using council data is needed. Improved social license for growth will benefit developers.	**Medium** During engagement developers said that certainty and consistency were valuable. If they were able to accurately predict future growth costs, they would be able to determine the viability of development with more certainty and factor these costs into what they offer for land.	**Low**
Owners of new properties	Overall, the GfHG programme is expected to moderate the price of land over time.	**Low**	**High**
Ratepayers	If a higher proportion of growth costs are recovered from development, a lower proportion will be transferred to ratepayers.		**High**
Councils (territorial authorities)	A simpler and more efficient process will enable councils to spend less determining the exact cost attributable to a particular development from a particular piece of infrastructure. Councils will also be able to work more flexibly and respond to the need for infrastructure to meet growth demand without the lengthy process of amending a development contribution policy to include	Medium in the long term as we expect the costs of administering development levies to be lower than the costs of the development contribution system.	**High**

Affected groups *(identify)*	**Comment** nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.	**Impact** $m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.	**Evidence Certainty** High, medium, or low, and explain reasoning in comment column.
Additional **benefits** of the preferred option compared to taking no action			
	particular asset. Lower risks arising from incorrectly forecasting the pattern and timing of development.		
Third-party funders (including the Crown)	Where the Crown chooses to target funding, it will be able to align Crown funding with the appropriate beneficiaries. This could have higher benefits for Crown agencies distributing a small number of large grants and potential benefits for all Crown agencies distributing funding to infrastructure projects, dependant on detailed design and Ministerial direction.	**Medium to high**.	**Low**
Total monetised benefits	Medium to High	Medium to High	Variable as detailed design work is yet to be done.
Non-monetised benefits	Medium to High	Medium to High	

Section 3: Delivering an option

How will the new arrangements be implemented?

180. The preferred approach would amend the LGA02 to repeal the current development contributions regime and introduce a new development levy system.

181. More detailed policy decisions will be required from Ministers before legislation could be drafted to implement a levy system. This includes:

DETAILED POLICY DECISION	CONTEXT
a. Defining exactly what levies can be charged for, particularly as this relates to community infrastructure;	Community infrastructure includes facilities like libraries, community halls, and public toilets. There is concern that some councils are charging for infrastructure that does not have a clear growth component, such as crematoria.
b. Determining which infrastructure assets businesses (including retirement villages) should contribute to;	Some businesses may provide residential facilities, but the demand they place on services can differ from standard residential development. Retirement villages may provide the same number of "residences" as a residential development, but due to the village design and demographic profile, place less demand on some services (such as community infrastructure and reserves).
c. The specific requirements for levy calculation, including formalising cost apportionment rules for growth and non-growth components of assets;	Councils currently have a lot of discretion to determine how "growth costs" are calculated and apportioned in their development contributions policy. This has led to each council developing their own terminology, templates and methods of calculation. A prescribed methodology for councils to determine what proportion of the cost of infrastructure should be attributed to growth is under development.
d. Further detail on how to address first mover issues and account for out of sequence development outside the levy zone;	To unlock land for development, a "first mover developer" may provide network infrastructure or fund the provision of network infrastructure. The scale of network infrastructure assets means that what the first mover provides will usually benefit more than just their development. Subsequent developers should pay their share of the cost of this infrastructure, to the first mover. There are no formal mechanisms to enable this in the current system.
e. The process for preparing levy proposals and amending existing levies;	The levy system is a significant change to the way that councils recover the growth costs of infrastructure. Significant work is needed to ensure that the processes are transparent and fair as councils develop levy proposals under the new settings.
f. What matters would desirably be supported by regulations to achieve successful	Some of the proposed levy features, such as the growth costs apportionment rules for growth and non-growth components of assets, may be more appropriately implemented through regulations than through primary legislation.

DETAILED POLICY DECISION		CONTEXT
	implementation of the new system;	There are other aspects of the system which a Minister of Local Government may wish to monitor and regulate if the level of discretion in legislation proves inappropriate. For example, if certain types of remissions appear to be undermining the levy system, a Minister may choose to introduce regulations.
g.	Application to water services providers, including technical amendments to the water services legislation; and	Officials have been working with the policy team in the Department to ensure that where a council elects to provide water services through a water council-controlled organisation (CCO), the CCO will be able to use the levy system.
h.	Further detail on how the transition will be managed, and matters relating to existing development contribution approvals.	Officials will need to work with councils to set up processes to manage transition. Decisions will be needed regarding the roll-out of the new system, including whether some councils should implement the system in 2027, while other councils continue to use the current system until 2030 (in line with LTP cycles).

182. If Cabinet agrees to proposals for the infrastructure funding settings, we expect that legislation for the new levy system will be passed by mid-2026. This would allow the first councils to implement a levy at the start of the 2027 financial year for a transition coinciding with the adoption of sector's 2027 Long-Term Plan.

183. We envision a phased approach for councils to adopt a levy. High growth councils would be supported by the Department to implement a levy system. This will allow resourcing to concentrate on implementing a successful levy in these urban areas first, while showing developers in the rest of the country how a levy could potentially work in their districts.

How will implementation risks be managed?

Managing potential impacts on the development sector

184. Introducing a levy system would mean that developers in many areas will pay higher infrastructure charges to councils. The exact increases will be determined by councils based on their aggregate growth costs.

185. Where increased charges are credibly signalled in advance, we expect they would not impact the viability of development in high-growth urban centres, because higher charges would lower the price a developer pays for land.

186. In 2022, Auckland Council commissioned advice on the likely impacts of proposed increases to development contributions in Drury. The advice found that "dwelling prices reflect the capitalised value of the housing services dwellings provide, as determined within larger housing markets, and so additional development costs cannot be passed forward to rents or prices but instead will be passed back to land in the form of lower land values".[14]

[14] Cameron, M. K., Dr, & Helm, T., Dr. 2022. Economic incidence of developer contributions. Sharing the Cost of Drury Infrastructure.

187. Similar findings were found in the 2020 review of development contributions in New South Wales, [15] and the 2014 Australian Productivity Commission's Public Infrastructure inquiry.[16]

188. To better understand how the shift to development levies will impact costs for developers, officials have undertaken high-level analysis of growing urban centres to consider how much capacity there is for increased infrastructure charges to be absorbed into land prices over the longer term. This analysis indicated that in most of these centres there is sufficient capacity to absorb higher infrastructure charges and not affect the profitability of buying the land.

189. However, there is significant variability between places: for example, the analysis indicated that Wellington could absorb significantly higher development contributions increases than Tauranga. Any existing challenges with development viability in smaller urban centres could also potentially be exacerbated.

Table 14. Rural-urban differential ($/sqm) adjusted by development contributions [17]

Town/City	Valuation Date	Adjusted LV difference ($/sqm)[18]	Adjusted LV ratio[19]
Auckland[20]	Jun-21	**$434**	**4.8**
Christchurch	Aug-22	**$314**	**8.8**
Dunedin	Jul-22	**$151**	**6.6**
Hamilton	Aug-22	**$227**	**3.5**
Napier	Sep-20	**$206**	**5.3**
Nelson	Sep-21	**$181**	**5.8**
New Plymouth	Aug-22	**$154**	**5.8**
Palmerston North	Sep-21	**$477**	**12.9**

[15] Productivity Commission. 2020. Review of Infrastructure Contributions in New South Wales – Final Report. New South Wales Productivity Commission. November 2020.

[16] Productivity Commission. 2014. Public Infrastructure, Inquiry Report No. 71, Canberra.

[17] These are the outputs of the Land Valuation Model, which estimates the value of land just outside the rural-urban boundary relative to land just inside the boundary. The difference in this value reflects restrictions to development, accounting for a limited number of land attributes and known development costs. Note, this data is only relevant for greenfield development. For brownfield development the next best use of land is the existing housing or industrial use, not rural uses. It also does not account for in-subdivision infrastructure costs, zoning and consenting costs, and recent increases in development contributions in some locations. Also note the Auckland figure does not include water and wastewater services as these are not provided by the council.

[18] The adjusted land value is the modelled difference between urban and rural land values after accounting for development contribution costs required for developing rural land.

[19] The adjusted land value ratio is the modelled ratio between urban and rural land values after accounting for development contribution costs required for developing rural land. E.g. Wellington's land value ratio of 10.3 shows that after accounting for land quality differences and development contributions, land inside the boundary is 10.3 times more expensive than land outside.

[20] The figures for Auckland do not include charges for water and wastewater services which are provided by Watercare, not the council. Watercare recovers growth cost from development through Infrastructure Growth Charges. For greenfield development in Auckland, Infrastructure Growth Charges are over $30,000 and their inclusion would affect the adjusted land value ratio.

Queenstown	Sep-21	**$462**	**5.0**
Rotorua	Jul-23	**$169**	**4.3**
Tauranga	May-23	**$411**	**4.1**
Wellington	Sep-21	**$327**	**10.3**
Whangarei	Jul-21	**$136**	**7.4**

Table 15. Estimated Development costs used in differential calculations (Table 14)

Town/City	Estimated development cost ($/sqm)
Auckland	$83
Christchurch	$18
Dunedin	$21
Hamilton	$64
Napier	NA
Nelson	NA
New Plymouth	NA
Palmerston North	$16
Queenstown	$26
Rotorua	$11
Tauranga	$57
Wellington	$13
Whangarei	NA

A well-signalled lead in time will help to mitigate impacts on development firms who have pre-purchased land

190. Even if increased charges do not negatively impact the viability of development, they may have negative financial impacts for development firms who have pre-purchased land (particularly those who purchased at the peak of the market).

191. In May 2024, Hamilton City Council commissioned a report from Insight Economics assessing the likely impacts of Hamilton City's proposed development contributions increases.[21] The report noted that development in Hamilton is 'challenging in the current environment'.

192. "Legacy landowners – who inherited or acquired land long ago at very low prices – may be more willing and able to keep creating new lots despite the higher development contribution charges because of their lower financial hurdles. More

[21] Insight Economics. 2018. Likely Developer Reactions to Increased Development Contributions Charges. Prepared for Hamilton City Council by Insight Economics.

recent entrants to the land development market, conversely, are more likely to be sensitive to the higher development contributions."

193. We propose managing these impacts by:

- announcing the introduction of a levy system to replace development contributions following Cabinet decisions in December, giving the development sector advanced warning of higher infrastructure charges; and
- providing councils with discretion to phase in higher charges to manage negative impacts on local development.

194. Early announcements would provide the development sector with advanced notice of likely higher infrastructure charges in the future. This allows time for developers who have pre-purchased land to commence development and pay development contributions under the current regime.

195. Even with advanced notice, there may still be negative impacts on local development if infrastructure charges are increased significantly. Providing councils with discretion to phase in higher charges helps to address this residual risk. Hamilton City Council and Hutt City Council have previously used this approach to manage the impacts of significant cost increases. For example, for the Valley Floor catchment, Hutt City Council is phasing in new charges which increase development contributions from $14,779 to $44,776 over a three-year period, from July 2024 to 1 July 2026.

196. By 2027 the current challenging environment for development is also expected to have improved, with forecast lower interest rates and higher house prices supporting a gradual recovery of residential construction activity. Based on BRANZ/Stats NZ estimates residential dwelling consents are expected to recover to around 35,000 per annum in 2027.[22]

197. Other measures being progressed across government to make it easier to build, improve competition for building materials and reform the resource management system should also reduce building input costs, potentially off-setting some of the increased costs of development contributions.

We expect the impacts on Māori housing to be minimal

198. We have considered the implications of the proposed new infrastructure settings for Māori-led housing delivery, particularly the development of whenua Māori.

199. For most Māori housing opportunities, particularly on whenua Māori, it is unlikely any increases to infrastructure costs could be absorbed in land prices. Māori land is generally multiply-owned, subject to Te Ture Whenua Māori Act 1993 and is often developed for the direct benefit of whānau rather than to make a profit.

200. While increased infrastructure costs could potentially impact the viability of some Māori housing developments, analysis suggests that development levies charged for Māori housing are likely to remain relatively low.

201. Most whenua Māori is concentrated in rural areas which have varying degrees of accessibility to main town infrastructure. Preliminary data from the district valuation roll which shows where dwellings are located on whenua Māori (which can indicate suitability for further urban development) shows that 87% of dwellings are in the Bay of Plenty, Northland, Waikato and East Coast (Gisborne/Hawkes Bay). While we know overall infrastructure costs for developing papakāinga on whenua Māori can be high, our review of development contributions policies in these regions shows that:

- In rural areas development contributions appear to be relatively low, or not charged at all – likely reflecting the fact that water services provision in many

[22] MBIE, National Construction Pipeline Report 2023: A forecast of Building and Construction Activity. National Construction Pipeline Report 2023 - A forecast of Building and Construction Activity (mbie.govt.nz)

rural areas is not via connection to town network but through on-site water bores/tanks and septic tanks, and the lack of road congestion in more rural areas.

- Development contributions in smaller towns and cities are generally much lower than in high growth main centres. For example, development contributions charges in Rotorua, Gisborne and Whangārei are less than $15,000 per Household Unit Equivalent or lot. This may reflect lower demand for council investment in trunk infrastructure to support growth given historically lower growth rates.
- In the high growth main centres of Hamilton, Tauranga and Western Bay of Plenty where development contributions are much higher (up to $70,000 in parts of Tauranga and Western Bay and over $100,000 in parts of Hamilton per Household Unit Equivalent), councils have remissions policies or grants in place for papakāinga development on whenua Māori.

202. We tested preliminary views on Māori housing impacts with Te Matapihi (the national peak body for Māori housing) and a small selection of Māori housing developers as part of targeted engagement on problem definition. For the developers we talked to development contributions were not currently a major barrier to Māori housing delivery. For example, because development contributions for papakāinga were generally not charged in Te Tai Tokerau, and development contributions are low in Gisborne (less than $10,000).

203. To help mitigate potential residual impacts we are planning to:

- Maintain councils' ability to offer remissions or grants for development contributions for social good purposes such as papakāinga development on whenua Māori;
- Require separate levy zones for urban and rural areas to enable differentiation between urban and rural development. This will help ensure that rural Māori housing developments are not paying for infrastructure projects they are not benefiting from; and
- Provide a well-signalled lead in time for the transition to higher infrastructure charges where applicable.

How will the new arrangements be monitored, evaluated, and reviewed?

204. The Department will receive direct feedback from councils and through the peak sector bodies, Taituarā – Local Government Professional Aotearoa and Local Government New Zealand, on the effectiveness of the new levy system.

205. A phased introduction of the new system that focuses on high-growth councils first will also allow resourcing to better concentrate on successful implementation. Lessons learnt from high growth councils will then support the introduction of a levy system in the rest of the sector.

206. Development of broader programme-wide monitoring and review activities are underway. These activities are expected to encompass all three GfHG pillars and track both longer- and shorter-term programme effectiveness.

Annex A: The legislative framework for growth infrastructure funding tools available to councils and their use

Legislation	Relevant scope	
Local Government Act 2002	Local government funding & financing system • Decision-making and consultation principles • Financial management – prudence, 'balanced budget', funding considerations • Long-term plans – financial strategy, infrastructure strategy, revenue and financing policy, **development contribution and financial contribution policy**	**Development Contributions** Charged to developers to fund the growth costs of infrastructure needed to support new development.
Resource Management Act 1991	Sustainable management of natural and physical resources • Balancing development and environment • Land-use planning provisions • Resource consents	**Financial contributions** A contribution of money, land or both from landowners or developers as a condition of a resource consent.
Local Government (Auckland Council) Act 2009	Framework establishing Watercare as the council-controlled organisation responsible for Auckland's water supply and wastewater services. Infrastructure growth charges are not legislatively enabled, they are contractual.	**Infrastructure growth charges** Watercare contractually charges developers a contribution for water infrastructure projects that support new development (because it cannot charge development contributions).
Local Government (Rating) Act 2002	Framework for local authorities to set and collect property taxes • General rates • **Targeted rates**	**Targeted rates** Charged to a particular group of ratepayers (or all ratepayers) for an activity or service that benefits them.
Rating Valuation Act 1998	Framework for the valuation of land for local authorities to apportion rates to ratepayers • Ensuring valuations are consistent, impartial and equitable	
Infrastructure Funding and Financing Act 2020	Framework for a separate funding and financing model for infrastructure projects: • Off local authorities' balance sheet • Supports housing and urban development	**IFF levies** Charged to landowners who benefit from new or upgraded infrastructure projects.

	Development contributions	Financial contributions	Infrastructure growth charges	Targeted rates	IFF levies
Can recover infrastructure growth costs	✓	✓	✓	✓	✓
Can be fixed at a flat rate until costs have been recovered without a new council cancelling it	×	×	✓	×	✓
Tight causal nexus between the growth cost of infrastructure projects & beneficiaries of growth	✓	✓	×	×	×
Can be charged to existing ratepayers	×	×	×	✓	✓

Annex B: Detailed exploration of the issues with the current development contributions regime

Problems with planning and prediction requirements

Construction/infrastructure delivery cost inflation.
Because assets must be included in a development contributions policy before resource or building consents for development are lodged, councils usually have incomplete information when they calculate their development contributions. As such, councils must determine the likely costs of an asset based on the information available. However, costs can increase beyond what is included in the development contributions policy for many reasons – such as construction and infrastructure delivery cost inflation, land prices increasing faster than anticipated, or environmental standards changing and requiring a more costly asset. Tauranga have stated that construction cost inflation is one of the most significant factors in under-recovery for their council.
Land prices increasing more quickly than anticipated where council must acquire land for infrastructure.
Estimating future land prices is difficult for all parties. For councils, predicting land costs based on the highest likely estimate in their development contributions policy can act as a cause of cost escalation. If a council knows they must purchase land for reserves, network infrastructure, or community infrastructure in the future, the amount the council includes in the development contributions schedule can become the minimum the landowner will accept for in payment.
The planning system's approach to intensification has made predicting the pace and spread of growth more difficult.
Under the current planning system, more land is zoned for development or intensification than a council can provide with additional infrastructure capacity. When planning to provide additional infrastructure capacity to allow for growth, councils must make predictions about where development is most likely.[23] But if developers choose to build in other areas, (where development is permitted but not anticipated) a council will need to provide more infrastructure to support that development and will not be able to recover the costs for any infrastructure that is not in the development contributions policy.
Providing infrastructure to service the maximum probable density allowed by zoning, then developers choosing to provide lower density or staged development.
When planning infrastructure for a new development, a council will consider the maximum density (dwellings per lot or per hectare for example) allowed in the district plan and the likely density of development. The council will then provide infrastructure to support the maximum density they anticipate to ensure that any new developments are adequately serviced. If the development which eventuates is at a lower density, and not all the capacity is used, councils cannot recover for the unused capacity and will have overspent on infrastructure.

[23] Councils can only recover for infrastructure they have committed to providing in their development contribution policy, and councils can only include infrastructure projects in their Long-Term Plan and development contributions policies when they have the capacity to finance the whole project – renewal and service delivery components as well as growth costs.

The requirement to return any over-recovery to developers means policies err on the side of under recovery (due to difficulty identifying the correct party to refund).
Councils are prohibited from making 'generous' estimates when they calculate their development contributions. This is because development contributions are a user charge, rather than a levy or a tax, and over-recovery is prohibited. Section 197AB (1)(c) of the LGA02 states "development contributions should be determined in … a way that avoids over-recovery of costs allocated to development contribution funding". Councils cannot risk contravening the ban on over-recovery, not only in the aggregate, but on each individual asset or programme of works. This means councils must be conservative when setting development contributions for each asset in their development contributions policy.

Legislative constraints

Development contributions must be charged according to the policy in place when an application is lodged, and the policy may not include all the infrastructure required to service the development in the application.
In Auckland the Inner Northwest IPA (investment priority area) very initial estimates are that the costs of infrastructure to service growth forecast up to 37,700 dwellings and 32,000 employees (through commercial development) are in the order of $2 billion. Auckland Council estimates that at least 4,000 dwellings are enabled through consents already lodged and would be assessed for development contributions under the current policy, which does not include all the required infrastructure. For employment the council estimates up to one third of anticipated commercial development would be assessed under the current policy. The foregone revenue is likely to be in the range of $160m to $230m.
Not all projects being identified in the planning process because consents were lodged as part of a private plan change (and development contributions must be charged according to the policy when an application is lodged).
Situations where a council receives a private plan change application with consents lodged in advance of the application proceeding, or when consents are granted under a fast-track process, can lead to under-recovery. An example of a private plan change application resulting in under-recover is Drury, mentioned in the Auckland response in Table 1. Drury was in a "future residential" zone, but as the council did not plan for development there in the medium term, it was zoned rural and infrastructure to support residential development for the area was not planned. Developers applied for a private plan change to have the zoning changed to residential immediately and lodged resource consents for residential development (before zoning was amended). When the private plan change was granted, developers who had submitted consents paid the development levy according to the policy that was in place when they submitted their consents – even though the policy did not include the infrastructure necessary to support their developments.

Third party funding cannot be targeted to cover non-growth costs.
Section 200(1) of the LGA02 places limitations on when councils can require a development contribution. These are intended to prevent councils "double dipping" and charging a developer for costs that have already been met through a different sort of charge or by another party (such as where the developer has funded or otherwise provided the infrastructure). Section 200(1)(c) states that a council: …must not require a development contribution for a reserve, network infrastructure, or community infrastructure if, and to the extent that…a third party has funded or provided, or undertaken to fund or provide, the same reserve, network infrastructure, or community infrastructure. In 2020, the Department published a guide on development contributions explaining how officials believed councils should be able to apply section 200(1)(c). This included advice on how third-party funding should be allocated – either evenly across all three drivers or targeted to a particular driver – depending on the third-party's intentions. Section 200(1)(c) has been interpreted as requiring a council to deduct third-party funding from the total project costs, before considering what proportion of the cost should be met from development contributions. We understand that this has come about because most third-party funding available to councils has been provided on a per-project basis, not targeted to growth, or non-growth costs (renewals and levels of service). The most common example of such third-party funding is Funding Assistance Rates (FAR) from the National Land Transport Fund (NLTF) administered by NZTA. NLTF funding is awarded to a transport project, not to any particular driver of demand for the project, and therefore distributed evenly across both growth and non-growth costs. In May 2024, Auckland Mayor Wayne Brown wrote to the Minister of Housing with a list of suggested legislative fixes. One of these was: A top priority fix worth $650 million – stop deducting Crown grants meant to cover the non-growth portion of infrastructure from the amount that can be recovered in DCs [development contributions]. Mayor Brown stated that if grants from the Housing Acceleration Fund (HAF) could be targeted to the non-growth portion of infrastructure for Auckland's Large-Scale Projects, up to $657 million more could be recovered from the developments which benefit from the growth portion of these infrastructure projects. The Large-Scale Projects in Auckland "will see about 40,000 houses built… in places such as Tamaki, Mt Roskill, Drury and Mangere." Mayor Brown asked the Minister of Housing to make changes to the LGA02 to enable third party funding to be targeted. Due to changes made through Auckland Council's 2024 Long Term Plan, the $657m figure is no longer accurate.
Projects needing significant amendment as a growth area develops and/or as environmental standards change.
Tauranga reported a $16.3m shortfall in development contributions funding for stormwater in the Pyes Pa West development, related to the increase in costs of projects. They stated that the projects outside the Lakes (Carrus) development were under budgeted, and in 2020, costs for three Pyes Pa West Stormwater projects increased significantly: • Pond 5($4.4m to $9.1m), • Pond 25 ($1.5m to $6.2m) and • Floodway F4 land ($1.3m to $3.3m). As works being funded must be in the long-term plan, when a project needs significant amendment a council must undertake a costly and time-consuming long-term plan amendment process. Full public consultation is required, and the amendment must be audited, which necessarily attracts an audit fee.

Crown exemptions
Some developments will not pay development contributions, despite creating infrastructure demand. This includes situations where the Crown is the developer, and the development provides new Crown assets or assets of additional capacity – for example new or additional schools or health facilities. In such situations the Crown does not pay development contributions due to the social aspect of the development which benefits the wider community of existing ratepayers. In the 2019 court case Tauranga City Council v Minister of Education in which Tauranga City Council sought to recover cost from the Crown through Financial Contributions, it was reported that: Non-payment of development contributions by the Crown in respect of the school would result in a shortfall of nearly $2.4 million in the infrastructure budget for the Wairakei catchment which would need to be transferred to ratepayers.

Political reluctance

A desire to keep development contributions as low as possible to incentivise growth (or certain growth projects).
Some councils set development contributions lower than the growth portion of infrastructure assets to service development to ensure developments remain viable and to incentivise growth within their districts. While this is inconsistent with the principle of "growth pays for growth" it may not be inconsistent with previous messaging from central government. The Department's 2013 review Improving Development Contributions considered removing or capping development contributions as options to make housing more affordable. A primary objective of this review and the subsequent changes to the LGA02 in 2014 was to see that "development contributions lower or do not unnecessarily increase housing costs".
A desire to set development contributions at a level that will be acceptable to developers and less likely to be challenged.
Councils aware of the risk of litigation set their contributions at low levels to favour developers, even when higher chargers could have been justified. Councils stated that even if the court finds in their favour, and their development contributions policy is upheld, they will end up out of pocket, because development contributions are paid later than they otherwise would have been, and interest has been accruing the whole time. Where a council is not awarded costs there is no ability to recover the legal costs they have incurred.
Councils agree to remissions but do not provide funding to offset these.
Where remissions for development contributions are provided by councils these are generally applied where there is a public benefit or social good element to the development. Common examples are community housing (provided by community housing providers) and papakāinga developments on whenua Māori. However, some councils offer remissions to encourage development of a certain kind, and it may not be clear to ratepayers that the remitted amount may need to be met through general rates. For example, Hamilton City Council expect $13.3m under-recovery due to remissions for: • CBD all development (50% remission subject to Urban Design Advisory Panel engagement, and Lifemark 4-star certification for residential components); • CBD - high rise (100% remission); and • State Integrated Schools (variable remission).

Financing

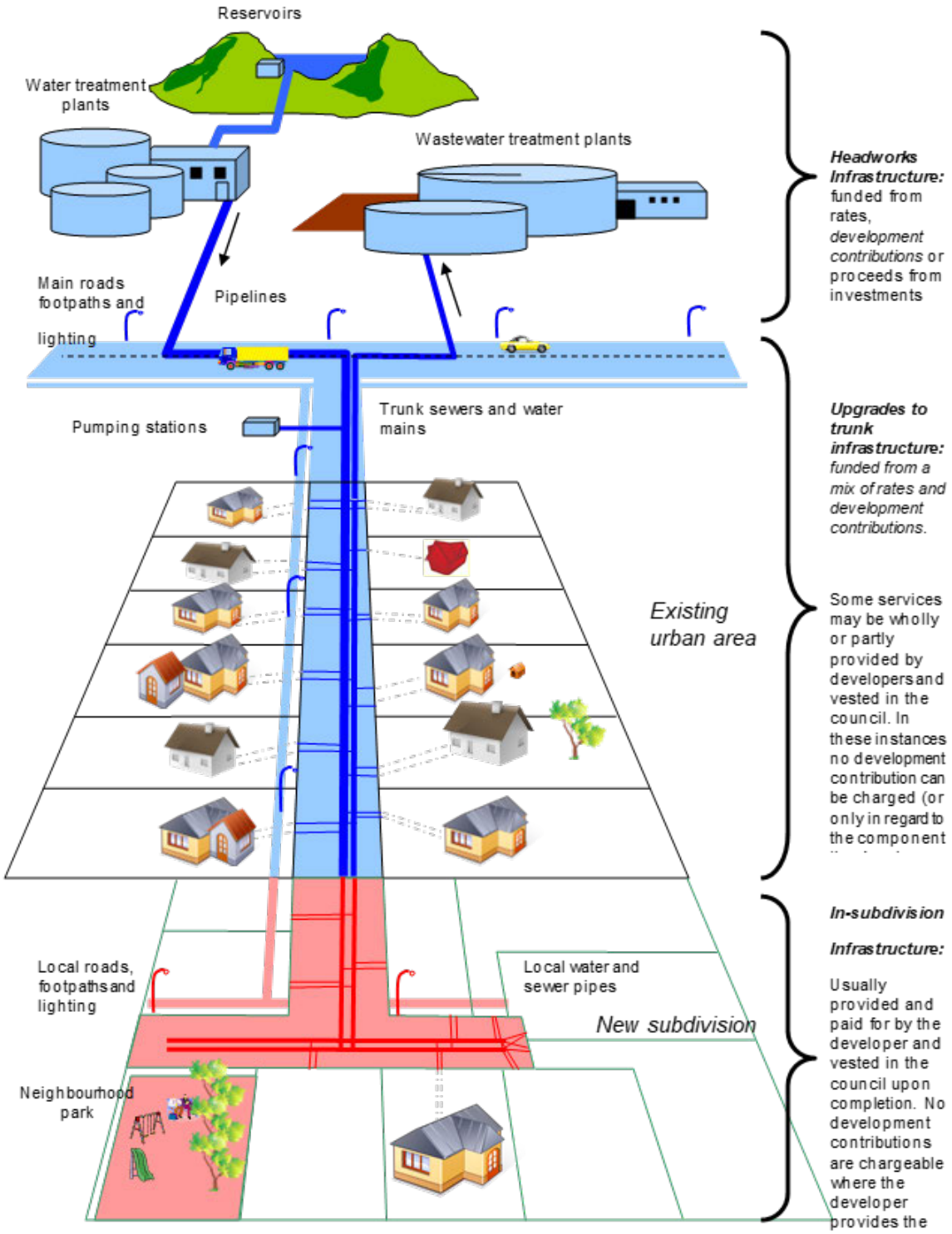
Delays between development contributions assessments being issued and payment being made to council (from consents granted to project completion).
As above, a council can only charge a development contribution based on the policy at the time a consent was submitted. This means that a comprehensive development consent, which enables large-scale, staged subdivision can "lock in" a low development contributions rate from the date the original consent was submitted and pay development contributions under the old policy for many years. Section 200(4) of the LGA02, allows a council to "require another development contribution … to reflect an increase in the scale or intensity of the development since the original contribution was required" but councils have been wary of testing what level of resource consent amendment would enable them to use this requirement. There is no power to require development contributions to be paid within particular timeframes, which can leave long lags between the assessment of the development contribution and the time at which it is paid. This is particularly true for subdivisions and building consents. In the case of a resource consent for a subdivision, enforcement comes from the ability of the local authority to withhold its final consent to the registration of the survey plan for the subdivision, which is a necessary step for the issue of new titles. In the case of a building consent, enforcement occurs through the ability to withhold a code of compliance certificate. However, a code of compliance certificate is not a pre-requisite to someone occupying and using a building.
Development contributions can only be charged on projects where the growth portion can be financed, and the non-growth portion can be funded.
A development contribution can only be charged for an infrastructure asset that is in a development contributions policy (and the council's long-term plan or infrastructure strategy) before a consent for development has been lodged. This means a council must plan a complete infrastructure response well ahead of anticipated development. As well as planning the necessary infrastructure, a council must be able to fully fund the non-growth costs of each infrastructure asset and have the capacity to finance the non-growth costs. Tauranga City Council told us "The general issue that development contributions only work where council have sufficient balance sheet room to finance infrastructure, and we don't have capacity anymore, [so we] are having to use development contributions less and less."

Annex C: Key Features of a development levy

Levy Feature	Rationale
A. Separate levies will be maintained for each service. The services are transport, water, wastewater, stormwater, community infrastructure and reserves.	Accounting for each service separately provides transparency and aligns with Local Water Done Well. The services are transport, water, wastewater, stormwater, community infrastructure and reserves.
B. Each urban centre or town will be a discrete levy zone to ensure the cost of development in each community is met by developers who choose to build there.	The cost of development in each community should be met by developers who choose to build there.
C. Councils have the discretion to charge an additional levy if providing a service to part of the levy zone requires infrastructure assets with particularly high growth costs.	Decisions on the appropriateness of additional charges are highly dependent on place-specific context about development opportunities and infrastructure investment plans. The proposed approach enables councils to set additional levies for high growth costs when they are confident that high-cost assets will be used efficiently if provided.
D. For each levy zone, levies will be calculated based on aggregate growth costs and expected levels of growth. Aggregate growth costs will cover: • actual past costs, i.e., remaining growth-related costs yet to be recovered for assets in a council's programme of works; • previously unanticipated growth costs incurred by councils due to cost escalation, a growth backlog, out-of-sequence development or private plan changes; and • anticipated costs for projects in councils' long-term plans and infrastructure strategies.	The provision of network infrastructure is often "chunky". Looking forward as well as backward will mean more consistent charges. Growth costs should be paid by development, whether they are incurred in anticipation of growth or in response to growth.
E. In calculating levies councils will be required to use: • standardised growth units; and • a prescribed methodology to determine growth costs.	There needs to be a nationally consistent base unit underlying all levy calculations and methods for calculating the proportion attributable to growth. This will enable transparency, comparing levies across categories and between jurisdictions.

Levy Feature	Rationale
F. Where a council receives an application for development in an area outside the levy zone, councils and developers will have two options: • The council and the developer can enter into a development agreement in which consents will be contingent on the developer meeting any costs that exceed current base levy rates; or • The developer can request a levy assessment. The process for a levy assessment would enable the council to charge additional costs if necessary (including non-capital costs for investigatory work as required).	Establishing the cost of providing infrastructure in an area requires significant resource from councils and expert input. For out of sequence development, this can require assessment across a large area or long corridor. These costs should not be met by ratepayers or other developers.

Annex D: Illustration of water services infrastructure networks



- Infrastructure provided by the developer is shown in shades of red
- Council provided infrastructure shown in shades of blue
- Private utility company (gas, electricity and telecommunications) not shown in this diagram