

Supporting Growth Through a Development Levies System Consultation

// Local Government New Zealand's submission

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About LGNZ

LGNZ champions, connects and supports local government. We represent the national interests of councils.

LGNZ welcomes the new development levies system to better enable development

Councils are responsible for most of the infrastructure that enables housing, local economies, and the day-to-day life of New Zealanders. But decades of political pressure to keep rates low have driven underinvestment and a growing infrastructure deficit. Rising construction costs, increasing climate impacts and population growth now make the gap more visible – and more urgent to fix.

LGNZ supports the proposed introduction of development levies as part of a transition to a more-flexible planning system. This mechanism ensuring that the costs of growth are actually met by growth in the short, medium and long term is particularly important in the context of the Government's proposal to cap annual rates increases at 4%. Any rate cap makes councils' ability to properly recover the costs of growth even more critical.

The final details and implementation support will determine how smoothly councils can put development levies to work. They will also determine how much risk councils are exposed to if assumptions about the growth and the infrastructure it requires are not borne out.

To deliver the scale of infrastructure required for housing, climate adaptation, and community wellbeing, development levies must sit within a wider package that includes value-capture mechanisms, the proposed Ratepayers Assistance Scheme (which LGNZ is a strong advocate of), GST sharing of new build construction with councils, and central-local cost-sharing.

Key points

- **LGNZ supports the introduction of a development levies system** as a complement to the changes to the planning system. This must deliver a funding tool for growth-related infrastructure that ensures growth pays for growth, and that reduces pressure on existing ratepayers, particularly in the context of proposed limits on rates increases.
- **Development levies are necessary but not sufficient on their own.** It is rare that infrastructure is purely focussed on meeting the needs of growth. New infrastructure requires funding for depreciation, maintenance and operation. This means that infrastructure development levies must sit within a broader funding and financing package, including GST sharing on new builds, value capture, enhanced Infrastructure Funding and

Financing tools, central–local cost sharing, and the proposed Ratepayers Assistance Scheme (RAS). If there is no broader package, development levies will constrain growth.

- **The effectiveness of the levy system depends on strong alignment with spatial plans, Future Development Strategies, and infrastructure strategies.** Predicting growth and its infrastructure needs under a more flexible planning system is not an exact science. This proposed system could increase risk for councils if assumptions of growth and necessary infrastructure are not right. These risks can in part be managed by ensuring alignment across key plans and strategies.
- **Councils must retain discretion** to manage local conditions, including flexibility around units of demand, service levels, remissions, levy reductions, and the ability to decline bespoke levy assessments where development creates unacceptable financial or delivery risk.
- **Regional council infrastructure should be eligible for levy funding**, particularly for assets such as flood protection and public transport infrastructure that are critical to enabling growth and climate resilience.
- **Oversight and reporting should support system learning rather than compliance-driven enforcement**, with standardised reporting and benchmarking. The complex, multi-objective and long-term scale at which infrastructure provision occurs must be recognised in the regulatory approach.

Our submission

Development levies are one tool in the toolkit

The right development levies system is an important component of how councils can meet the costs of delivering growth infrastructure. However, development levies alone are not enough to ensure councils can meet communities' current and future infrastructure needs. Infrastructure projects often meet multiple aims (growth, service level increase/meeting existing demand, and renewal). Planning reform enables more development, but councils must still fund and deliver the infrastructure that makes that development possible.

Even if the full cost of growth can be recovered, councils will still need to utilise rates to fund consequential operational costs. For example, depreciation and shortfalls as a result of remissions or exemptions applied. Additionally, any funding assumptions that have been baked into development levy calculations (for example, funding available through national land transport fund) could create further funding gaps that ratepayers would have to close. In the context of the Government's proposal to cap annual rates, this could impact councils' ability to increase investment to support growth or force decreases in levels of services and operational costs.

Wider reform of local government's funding and finance tools could incentivise councils to deliver on the wider aims of *Going for Housing Growth*. Under the current system, councils do not benefit directly from the economic uplift associated with housing growth. Access to buoyant revenue sources, such as GST sharing on new builds, would resolve this and incentivise growth. Introducing complementary funding and financing tools would materially improve councils' ability to support growth and also increase social licence from the communities where growth occurs.

The proposed Ratepayer Assistance Scheme (RAS) would add a targeted, household-level financing option without weakening the 'growth pays for growth' principle. RAS is designed as a low-cost loan facility that allows eligible ratepayers (including future homeowners) to spread upfront council charges over a longer period while still receiving the charge in full and on time. It could be used for development levies and rates. RAS changes how people pay, not how much is recovered by councils. It does not write off, discount, or subsidise levies; it simply offers affordable payment terms backed by local/central government support, off councils' balance sheets. This preserves levy integrity and avoids shifting growth costs onto general ratepayers, while helping address affordability by removing the barrier of upfront cost for smaller developers.

LGNZ welcomes the proposed development levies system and associated funding reforms, including complementary tools such as RAS. We look forward to working with Government to ensure the full growth reform package delivers aligned incentives, sustainable infrastructure funding, and enduring community confidence

Levy design must still enable local decision-making and align with broader planning systems

LGNZ supports the proposed levy structure as a fair and transparent way to distribute the costs of infrastructure across communities. The costs of infrastructure needed to support new development, such as roads, water services and community facilities, should be met by those driving the growth, rather than falling on existing ratepayers.

However, there are risks that must be addressed to ensure the system works as intended. These include the potential for under-recovery if levies are set too low, challenges in forecasting infrastructure needs over long time-horizons, and the risk that smaller councils may lack the capability to implement the system effectively. There is also a need to ensure that any costs shifted to existing ratepayers are transparent and justified.

Alignment with spatial planning and infrastructure strategies is fundamental to an effective development levies system

The design and delivery of infrastructure, particularly significant bulk infrastructure, is an involved process and cannot be truly flexible. While the land-use system will become more flexible, the development levies system's flexibility relates to levying across a wider area and application to infrastructure programmes rather than specific projects.

Everyone agrees there should be a more strategic and coordinated approach to infrastructure planning across central government, local government, and industry stakeholders to reduce duplication and improve alignment between policy settings, funding mechanisms, and infrastructure delivery. The proposed development levies system's effective will depend not only on its design in isolation, but on how well it is integrated with the wider planning framework, particularly spatial planning, land-use planning, Future Development Strategies, and infrastructure strategies.

Decoupling infrastructure funding from individual development consents has the potential to better align funding decisions with the network-based logic that underpins spatial planning, infrastructure investment, and long-term growth management. However, these linkages are not inherent in the current proposals and will need to be deliberately designed and maintained. Without clear alignment mechanisms, there is a risk that the levy system could operate in parallel to – rather than in support of – strategic planning outcomes.

Under current proposals, spatial plans are intended to set the long-term spatial vision and to guide and constrain Future Development Strategies by identifying preferred growth locations, sequencing, infrastructure corridors, and areas where development should be avoided or limited. Future Development Strategies, in turn, are intended to give effect to spatial plans by translating this spatial direction into development capacity assumptions, infrastructure requirements and investment priorities. Infrastructure strategies and funding decisions should then flow from these agreed strategic directions, ensuring that infrastructure investment is prioritised in locations that are spatially planned, sequenced and supported by long-term growth projections.

For a development levies system to reinforce this framework, levy settings and expenditure must be aligned with spatially identified growth areas and the sequencing set out in Future Development

Strategies and infrastructure strategies. This includes ensuring that levy revenues are primarily directed toward infrastructure that supports planned growth locations and agreed network outcomes, rather than responding to ad hoc or unplanned development pressure. This is where it is critical that levy settings enable councils to use discretion, and ultimately have the ability to decline, bespoke levy requests outside of levy areas. This is discussed in further detail later.

Accurate prediction of how and where growth is expected is therefore critical. Growth assumptions underpin not only infrastructure capacity planning but also the provision of community-scale assets such as public facilities, transport networks and open space, as well as the efficient operation of water, wastewater, and stormwater networks. Where growth occurs as anticipated, infrastructure can be planned and delivered at appropriate scale and timing, supporting efficient asset utilisation and more predictable operational costs.

Conversely, growth that occurs out of sequence or outside spatially planned areas has significant implications for councils. Unplanned greenfield development can require the early provision of infrastructure where network capacity has not yet been established (or may never be efficiently established), leading to higher per-unit capital and operational costs. Low utilisation of assets in dispersed or premature growth areas can result in ongoing cost inefficiencies, placing upward pressure on council operating budgets and, ultimately, on ratepayers.

Additionally, alignment with the Planning Bill and consenting regime will be critical to ensure that councils retain discretion over infrastructure provision when granting land use and subdivision consents. There must be clarity *before* consents are granted around how infrastructure will be funded and who will fund it, particularly in out-of-sequence developments. The Development Levies legislation needs to explicitly address this connection with land-use planning decisions so that councils are not left to pick up the bill for infrastructure provision where development has been consented but funding decisions have not been agreed. Without strong alignment between the development levies system, spatial plans and infrastructure strategies, there is a risk that councils will continue to bear the financial consequences of out-of-sequence growth, especially where such growth is inconsistent with adopted spatial plans. Clear expectations are needed that levy settings, revenue allocation, and investment decisions will actively reinforce spatial planning outcomes and support growth that is planned, sequenced, and infrastructure-ready.

Inherent uncertainty of growth forecasting

The consultation document acknowledges that growth forecasting and infrastructure planning are inherently uncertain, particularly in a more permissive planning environment as signalled through the proposed Planning and Natural Environment Bills.

While many councils have undertaken comprehensive growth forecasting in response to the requirements of the National Policy Statement on Urban Development, this is not universal. There remains variability in the quality, maturity and consistency of growth modelling across councils. LGNZ suggests that guidance and support is provided to assist councils (particularly smaller ones) with undertaking growth forecasting and modelling that is efficient and cost effective.

In addition, growth forecasting has often relied on existing district plan provisions to inform assumptions about development capacity that is theoretically available, rather than capacity that is likely to be realised in practice. Proposed resource management reforms are expected to materially

alter planning settings, development feasibility and developer behaviour. These changes will need to be actively reflected in growth modelling, as historic development patterns and current plan provisions may no longer provide a reliable basis for forecasting future growth location, timing or form. Without mechanisms to recognise and adjust to these shifts, there is a risk that levy assumptions will quickly become misaligned with actual development outcomes.

In the absence of effective mechanisms to monitor actual growth and infrastructure delivery against forecasts, levy settings may over time grow out of sync with underlying infrastructure costs. This creates a risk of over-recovery, where development is charged in excess of infrastructure costs incurred, or under-recovery, where councils are required to fund infrastructure shortfalls through rates or debt. Both outcomes undermine confidence in the system.

Flexibility needed for units of demand where development does not align with the standard typology framework

LGNZ supports setting clear and consistently defined units of demand (UoD) to create greater certainty for councils and developers, minimise case-by-case levy disputes, and reduce administrative burden. However, local discretion should be retained in the system where development types vary from the standard framework or significant variations in demand exist.

There will always be developments that do not fit neatly into standard typologies, or where demand is materially higher or lower than average. Examples include service stations, transport terminals, logistics hubs or large-scale processing facilities. These types of development are highly variable and not easily captured through a standardised UoD framework. Councils should therefore be explicitly enabled to undertake special assessments within their levy policies to determine appropriate units of demand and levy charges.

Table 3 in the consultation document provides an example of how UoD might be allocated based on development type. LGNZ supports this approach in principle but notes the following matters would improve its usability:

- Broader categories for residential units based on typical demand/varying infrastructure needs (e.g. standalone, terraced, apartments, multi-units or low-rise and medium/high-rise)
- Standardised definitions (e.g. bedroom, different residential unit types, ancillary accommodation).

Councils should be directly involved in developing any national UoD framework to ensure it reflects operational realities and builds in sufficient flexibility.

Caution advised in setting standard service levels

LGNZ cautions against the use of standard levels of service given the variability and nuance councils face. Levels of service are often outcome-based and relate to matters such as complaint response times, service interruptions and consent compliance. These differ fundamentally from design standards and asset management assumptions, which may reference network capacity thresholds or minimum annual exceedance probability (AEP) values.

For example, in wastewater systems, levels of service are commonly expressed through measures such as overflow frequency or compliance with environmental limits. These are highly context-specific, reflecting local network condition, receiving environments, regulatory requirements and community expectations.

Some assumptions may be more conducive to national consistency, such as typical household water demand or baseline service objectives, but even these rely on local network capacity and investment history. Any move toward standardised service levels would also need to recognise the resourcing and financial capacity constraints facing individual councils, particularly in the context of existing fiscal pressures and proposed rate capping.

As an alternative, further investigation could be undertaken into whether baseline, service-specific benchmarks might be established to support greater consistency while still enabling locally determined service outcomes. If progressed, this work would need to be developed collaboratively with councils.

Recognising regional council infrastructure within the development levies system

LGNZ considers that certain infrastructure provided by regional councils would be important to capture within the development levies system. This would better reflect the true infrastructure demands of growth and improve funding alignment across local government. Regional assets such as flood protection and drainage schemes, public transport infrastructure, and strategic environmental infrastructure are critical enablers of urban development and intensification. New development both relies on and increases demand for these assets, particularly in areas exposed to climate-related flooding risks or dependent on regionally planned transport networks. Excluding regional council infrastructure from levy eligibility risks under-funding assets that are essential to making development viable, shifting costs onto existing ratepayers, and weakening incentives for integrated land-use and infrastructure planning.

Enabling regional councils to receive development levy funding would also support more efficient, coordinated and resilient growth outcomes. Regional councils are responsible for infrastructure that typically serves multiple districts and is planned on a catchment or network basis, aligning well with the proposed area-based approach in the development levies framework. Including regional infrastructure would reduce fragmentation between territorial and regional funding tools, improve certainty for long-lead investment in flood resilience and public transport, and better align with broader objectives around climate adaptation, mode shift and sustainable growth. Clear eligibility criteria and prescribed methodologies could ensure that levy revenue supports only the growth-related share of regional assets, while preserving proportionality and transparency within the system.

Methodology for calculating development levies needs to balance national consistency with council discretion

LGNZ supports the development of a nationally consistent methodology for calculating development levies, provided it allows for appropriate local flexibility and can be applied effectively by councils of

varying scale and capability. A clear methodology will help ensure levies are fair, predictable and based on transparent assumptions.

The proposed methodology sets out how levies will be calculated using expected growth and the costs of infrastructure needed to support that growth, including the definition of demand units, cost allocation across services and areas, and documentation requirements. This consistency should reduce disputes and improve transparency. However, care is needed to ensure the methodology can accommodate locally specific growth patterns, infrastructure constraints and delivery risks.

High-cost overlays likely to be a point of contention

High-cost overlays are an important component of the proposed system, as they enable councils to recover additional costs in areas where infrastructure provision is significantly more expensive. This recognises the reality that growth costs are not uniform within levy zones, particularly in areas with challenging topography, constrained networks or heightened hazard exposure.

Councils will be able to identify high-cost areas within levy zones where additional infrastructure investment is required and apply a supplementary levy to developments in those areas. While this is conceptually sound, LGNZ notes that high-cost overlays are likely to be a point of contention and potential challenge for councils, particularly where cost drivers are complex or contested.

Clear national guidance on when and how high-cost overlays should be applied would support consistent practice across councils and reduce the risk of dispute. LGNZ also agrees with Taituarā's submission regarding the use of the word "*substantial*" in clause 211J with regards to the threshold for differences in growth costs. Replacing this with "*significant*" would achieve the same policy intent while reducing interpretative ambiguity and aligning with established planning and funding practice.

Remissions and reductions in development levies require council discretion

Whilst we acknowledge the need for flexibility and council discretion in the system, the use of levy remissions and mandatory deductions for non-standard designs that reduce the demand for a leviable service must be carefully considered. A key intention of the proposed system is that development pays for the aggregated, average costs associated with growth, rather than the cost to provide capacity in a specific location. This is intended to provide greater certainty to developers on upfront costs, which can then feed back into land prices (as opposed to house prices). These mechanisms have the potential to undermine that certainty and create under-recovery and cost-shifting to ratepayers if set too broadly. The risk of under-recovery is further compounded given the Government's rates capping proposal, which could hamstring councils' ability to fund the costs of growth not recovered through the development levies system.

LGNZ acknowledges the benefits of utilising these mechanisms to encourage innovative design and developments that support community outcomes, such as enabling remissions for community housing projects, papakāinga development on Māori land, or where Lifemark certifications have been achieved. Given the variability of current remission practices for development contributions across councils, some guidelines and principles for a remission framework may support greater consistency and certainty across the system and minimise potential cost disputes.

In the case of mandatory levy reductions for non-standard designs that reduce demand, this opens up a very broad range of scenarios in which reductions might be sought. Allowing reductions in development levy charges for non-standard designs, such as on-site soakage or rain gardens, could be challenging for councils to implement and in many cases is unlikely to materially reduce growth-related capital expenditure. A reduction in demand at an individual site or development does not necessarily translate into a proportional reduction in capital or operational costs at the network level. In many cases, infrastructure still needs to be provided to a similar standard and scale to maintain service levels across the system, limiting the extent to which “avoided costs” can be reliably quantified. Further, these design solutions vary significantly by site condition, long-term performance and maintenance arrangements, making it difficult to assess and value levy reductions in a consistent and proportionate way.

LGNZ recommends that councils have discretion around where they provide levy reductions so that only circumstances that go beyond baseline regulatory requirements and demonstrably reduce system-level costs are covered.

Further investigation could also be undertaken around standardised levy reduction caps that meet defined eligibility criteria. This would retain incentives in the system to utilise innovative design features, create greater administrative efficiencies, and reduce the potential for councils needing to cross-subsidise reductions at the network-level.

Both remissions and deductions have the potential to create complexity and challenges for councils – support and guidance will be needed if these are retained to ensure these exceptions do not undermine the purpose of the system for growth to pay for growth.

Councils should have the ability to decline bespoke levy assessments

LGNZ supports the proposal to allow councils to apply bespoke development levies for developments outside of defined levy areas. This approach helps to ensure that the true cost of servicing premature or off-network development is reflected in the charges applied, rather than being subsidised by existing ratepayers.

By signalling the higher costs of going early or outside planned areas, the system can help guide development toward locations where infrastructure is already available or can be efficiently delivered. It also supports better alignment with long-term planning and investment strategies.

However, there are risks that need to be carefully managed. Clear definitions, such as for unplanned or out-of-sequence growth, need to be provided and tied to spatial plans and infrastructure strategies to ensure that there are clear signals for developers. Coordination with other planning and consenting pathways is essential to avoid mixed signals and ensure consistency.

Councils should have full discretion to decline bespoke assessments to reduce potential issues where out-of-sequence growth creates financial constraint or risk exposure, or derogates from the provision of priority infrastructure. Councils should not be bound to guaranteeing the provision of infrastructure anywhere that development could occur. While development agreements offer an alternative pathway, these still carry risk for councils where assets are vested back. The ongoing operational and maintenance costs still sit squarely with councils.

Oversight, reporting and disclosure should be treated as a learning mechanism rather than compliance-focused

We note that the Government has signalled the Commerce Commission will be the regulator for development levies. We agree that the introduction of regulatory oversight will help to assure fairness, proportionality and transparency across the system. However, we strongly recommend that there are appropriate checks and balances that recognise the complex, multi-objective and long-term scale at which infrastructure provision occurs. As above, regulatory oversight at this scale would benefit from a focus on system-learning and consistency, as opposed to a strongly compliance- or enforcement-driven approach.

To support system learning and transparency, LGNZ agrees that clear reporting on anticipated versus actual use of levy revenue is needed. Systematic variance analysis would:

- identify systematic forecasting bias,
- allow levy methodologies to be refined over time, and
- support evidence-based adjustments to levy rates and zones.

LGNZ supports a review period of three years to allow sufficient time for trends and issues to emerge and align with long-term planning cycles while ensuring policies reflect the up-to-date costs of growth.

However, meaningful variance analysis requires robust financial tracking, clear attribution of expenditure to services and levy zones, and analytical capability to explain differences. For smaller councils, these requirements may impose disproportionate costs or divert resources from delivery.

To manage this, LGNZ recommends:

- standardised reporting templates and disclosure requirements,
- practical statutory timeframes for oversight and appeals, focused on process and methodology rather than re-litigation of growth strategies, and
- publication of benchmarks and comparators to support sector learning.

Transition period for development contributions

LGNZ supports a phased transition from development contributions to development levies aligned with Long-term Plan cycles. This will support continuity, manage risk, and allow councils time to adapt systems and capability.

We also note that the financial contributions regime has not been addressed in the proposed levy system or the draft Planning Bill. Further clarity is required on how this regime will interact with development levies and future planning reform or whether the intention is to remove these as a tool entirely.