Te Tūāpapa Kura Kāinga
Ministry of Housing and Urban Development

Te Tari Taiwhenua
Internal Affairs

Factsheet 2: Development levies and targeted rates

The Government has made decisions aimed at improving infrastructure funding and financing tools to help get more housing built.

Over the past decade, planning and zoning changes have increased the supply of land for housing in New Zealand's main urban centres. Changes through the Going for Housing Growth (GfHG) programme, such as Housing Growth Targets, will further free up land for urban development.

These changes will help to improve housing supply, choice and affordability. But with more land freed up for development, councils and other infrastructure providers now have less certainty about when and where development will happen. They need to build infrastructure that responds to growth, but the current infrastructure funding toolkit isn't sufficiently flexible and doesn't enable them to recover the full cost.

Replacing development contributions with a development levy system

Development contributions are a one-off upfront charge on a developer to support council investment in growth infrastructure. They are currently councils' main growth funding tool. They were designed back in 2002 for a planning system where councils had more control over the release of urban land and would charge developers for specific planned infrastructure improvements that service a predetermined growth area.

Shifting to development levies will provide councils and other infrastructure providers, such as water council-controlled organisations, with increased flexibility to charge developers for the overall cost of growth infrastructure across an urban centre.

Councils and other infrastructure providers will still be required to use identified infrastructure projects to calculate levies. However, they'll be able to adapt plans to respond to growth and use development levy revenue to build the infrastructure needed to support housing and urban development.

KEY FEATURES OF DEVELOPMENT LEVIES	
A.	The purpose of development levies is to ensure councils and other infrastructure providers charge developers a proportionate amount of the total cost of capital expenditure necessary to service growth over the long term.
B.	Councils and other infrastructure providers will maintain separate levies for each infrastructure service. This covers drinking water, wastewater, stormwater, transport, reserves and community infrastructure.
C.	A levy zone is expected to cover a pre-defined urban area. Within each levy zone, a standard base levy will apply for each infrastructure service. However, infrastructure providers will have the discretion to add an additional charge on top of the base levy

KEY FEATURES OF DEVELOPMENT LEVIES	
	for a service, for any part of a levy zone where providing that service requires particularly high-cost infrastructure.
D.	Each levy will be calculated based on overall growth costs and expected levels of growth. Growth costs can include: • actual past costs**, including** previous expenditure on assets with growth capacity that a council is expecting to recover from development**; and** • anticipated expenditure to provide growth capacity.
E.	Infrastructure providers will be required to use a prescribed methodology to ensure consistent application of development levies, for example to determine growth costs.
F.	For proposed developments outside of a levy zone, there will be a process where councils or water service providers can determine an appropriate levy, including any additional charges.
G.	Development levies will be flexible to suit the different models councils use to deliver their infrastructure. This includes supporting first-mover developers who provide infrastructure capacity for subsequent development, enabling third party funding to be targeted to a non-growth portion of a project, and recovering council costs for infrastructure owned by another entity.
H.	Development levies will be subject to regulatory oversight and councils will need to ensure they're setting appropriate charges.

Implications of development levies and managing the transition

The development levy system will provide councils and developers a more flexible funding tool to respond to growth pressures and deliver infrastructure to land zoned for development, while limiting the financial impact of growth on councils and ratepayers. It will also reduce administrative complexity for councils.

In the long term, any increases in infrastructure charges should be reflected in lower bulk land prices, rather than impacting costs for developers.

But to help manage impacts on development firms in the short-term that have already pre-purchased land we are:

- announcing the introduction of a levy system from 2027 onwards now, giving the development sector advanced warning of higher infrastructure charges so they can progress developments before charges increase, and
- providing councils with discretion to phase in higher charges to manage negative impacts on local development.

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Improving the flexibility of targeted rates for growth infrastructure

The Government is also making changes to enable a council to set targeted rates that apply when a rating unit for example, a separate property is created at subdivision stage.

This change will support councils to apply the principle of ‘growth pays for growth’ in two ways:

- Councils will now be able to set targeted rates that apply only to new developments. This could be used as an alternative to a development levy, particularly for smaller councils where it may be easier to manage the use of targeted rates instead of development levies.
- Councils will also be able to use targeted rates and development levies together, where projects benefit existing residents and provide for growth.

These changes and improvements will be progressed through a Local Government (Infrastructure Funding) Bill. This legislation is expected to be introduced in September 2025, and enacted in mid-2026. There will be opportunities for public feedback as part of this process.