Funding and financing explainer

Background

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

Central government has signalled a package of reforms to modernise how growth infrastructure is funded (who pays) and financed (how we pay up-front). The aim is to shift from all ratepayers carrying the load to a **"growth pays for growth"** model, while unlocking private capital where it makes sense.

The infrastructure funding and financing reforms are one of three pillars of the Government's Going for Housing Growth (GfHG) programme.

Key issues and reforms underway

The reforms now underway represent the most significant changes to local government funding and financing tools in over a decade. They are intended to give councils a better toolkit for delivering the infrastructure that underpins housing growth, climate adaptation and resilient communities, while easing the burden on existing ratepayers. The new tools will be available for adoption through LTP 2027–2037, with phased transition through to 2030.

A central change is the replacement of **development contributions with a new development levy system**:

- Rather than tying charges to individual projects, levies would be calculated across whole service areas or zones. This means councils could recover a fair share of the aggregate cost of growth-related infrastructure (including water, transport, and community facilities).
- Councils would be able to set base charges across a zone – and to apply higher charges for out-of-sequence development. There could be additional charges in higher-cost pockets of the zone.
- The new framework aims to make charges more transparent, predictable, and easier to integrate with long-term planning.

The **Infrastructure Funding and Financing Act (IFF Act)** is also being reformed to make it a more workable option:

- The IFF Act allows infrastructure to be financed off council balance sheets through a special-purpose vehicle. Uptake to date has been limited by complexity and approval barriers.

- Proposed changes would broaden eligibility to include water entities, Waka Kotahi/NZTA, and developer-led proposals. The changes would allow for brownfield and regeneration projects as well as greenfield developments; and simplify approval processes.
- Greater flexibility in levy design, including the option to defer payment until a later trigger such as sale or subdivision, is also being considered.

Alongside these changes, the **Local Government (Rating) Act** will be amended to let councils set **targeted rates** for properties subdivided after a specified date:

- This will give councils additional flexibility to ensure new developments contribute to the infrastructure that enables them.
- Smaller councils could use targeted rates rather than development levies. A targeted rate could be combined with other tools such as development levies and IFF Act levies.

Finally, there is ongoing political discussion about **rates capping** as a means of containing affordability pressures.

- The concept of rates caps is popular with households struggling with the cost of living.
- However, if councils don't gain alternative revenue sources, they either have to cut services and defer maintenance or shift costs to fees or debt.
- Local Government Minister Simon Watt intends seeking policy decisions from Cabinet on rates capping before Christmas.

How the reforms will affect councils

Reforms to introduce new or improve existing funding and finance tools could be game-changing if done well. They shift costs to growth, unlock capital, and help councils deliver the infrastructure that enables homes and communities, while protecting existing ratepayers. The final details and implementation support will determine how smoothly councils can put them to work.

For councils, the reforms mean a stronger ability to ensure that the costs of growth are met by new development rather than falling disproportionately on existing ratepayers. Development levies, targeted rates linked to subdivision, and an improved IFF framework will allow a broader mix of tools that can be tailored to different types of projects and local circumstances. Used together, they can create fairer cost-sharing and more predictable revenue streams, while also making it possible to bring forward infrastructure without overloading council balance sheets.

However, these changes will require councils to lift their capability. Robust data and growth modelling, clear policies, and effective communication with developers and communities will be essential to implementing the new tools successfully. Councils will need to explain in plain terms who pays for what, and for how long, to maintain public trust and support housing supply. If well supported in design and implementation, the reforms could provide councils with the financial certainty needed to align infrastructure investment with growth and climate adaptation goals.

LGNZ's position and what we've been doing

LGNZ strongly supports the overall direction of reform. Modern funding and financing tools are essential if councils are to enable housing growth, invest in climate adaptation, and protect existing ratepayers from shouldering an unfair share of costs. Our focus has been on securing safeguards to make the system fair, workable, and sustainable.

Over recent months, LGNZ has been engaging with ministers and officials and preparing our submissions. We are advocating for nationally consistent methods that are easy to understand, clear rules to prevent double charging when tools are combined, and simple allocation statements that show who pays for what. At the same time, we emphasised the need to preserve local discretion so that settings can be tailored to local conditions, while keeping approval processes fast and proportionate.

We are also calling for a comprehensive programme of implementation support for development levies, including templates, training, shared services, and data standards, so that all councils, large and small, can apply the system effectively. Our aim is to ensure the final package of reforms provides councils with the confidence and capacity they need to deliver the infrastructure New Zealand communities depend on.

In terms of rates capping, our events have featured international speakers discussing unintended consequences of rates capping, including service degradation and financial instability. Our guests from New South Wales and Victoria also met with the Local Government Minister's office as well as Department of Internal Affairs officials. We've engaged with Ministers, the Prime Minister, and officials to discuss alternatives such as benchmarking and transparency. We've also discussed the impacts of rates capping with members of the Local Government Business Forum, Infrastructure NZ and Greypower.

Finally, LGNZ has been working with a range of councils and partners to create a financing vehicle for councils – the Ratepayers Assistance Scheme (RAS). It would ease cost-of-living pressures for ratepayers by allowing them to finance local authority charges. They could also use it to finance property improvements like solar and healthy homes for public benefit, for example.

Like the Local Government Funding Authority, which LGNZ helped create, RAS would be a game changer for councils. LGNZ has now secured more than $2.5 million in development funding from councils and third parties. We have also secured strong support from the Minister, resulting in DIA starting policy work in August 2025.

RAS is now in the final design phase, with the final business case near completion, which will set up a decision in the New Year to establish the RAS.

Further reading

LGNZ Key Issues: Funding and Finance

Infrastructure funding and financing
Going for Housing Growth (Pillar 2) – overview and factsheets

The Infrastructure Funding and Finance Amendment Bill

[Supporting Growth Through a Development Levies System Consultation Document]

Rates capping
[Local Government Minister to propose policy that caps rates]

Key funding and financing milestones