

**BUILDING
PERFORMANCE**

Summary of Submissions

BUILDING LEVY REVIEW





**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

Ministry of Business, Innovation and Employment (MBIE) Hīkina Whakatutuki – Lifting to make successful

MBIE develops and delivers policy, services, advice and regulation to support economic growth and the prosperity and wellbeing of New Zealanders.

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Online: ISBN 978-1-991143-57-0

March 2024

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Introduction

WHAT IS THE BUILDING LEVY?

The Building Levy (the Levy) is provided for in the Building Act 2004. It funds a range of building regulatory functions undertaken by the Ministry of Business, Innovation and Employment (MBIE). These functions include:

- policy, technical rules and guidance, operational policy advice and service design
- information and education
- service delivery (compliance and enforcement)
- monitoring and reporting.

People who pay the Levy benefit from these functions and activities. Benefits include:

- improved building safety and longevity
- a better understanding of their obligations when building
- assurance for those who may purchase an existing building that it is safe.

The Building Act allows for the Levy to be used to fund the MBIE's functions and activities related to the building sector in other Acts. These functions must be related to monitoring, overseeing, or improving the performance of the building sector or regulatory systems under that Act.

The Levy is set in the Building (Levy) Regulations 2019. Building consent authorities (BCAs) calculate the Levy using the estimated value of the building work set out in a building consent application. If the value is over \$20,444, and if the consent is granted, owners or developers of residential or commercial buildings are levied a percentage of the building work value. The Levy must be paid when the consent is granted.

The Levy is held in a memorandum account, and the balance goes up or down depending on Levy income. Treasury and Office of the Auditor General guidelines indicate memorandum account balances should trend to zero over time. The Building Levy account balance was \$71.6 million as at 30 June 2023. The Levy is reviewed every three years and one of the objectives is to maintain the account balance at or near zero.

SCOPE

This document summarises the submissions made during consultation on the *Discussion paper – Building Levy Review*. The discussion document sought feedback on the following proposals:

- increasing the levy threshold
- increasing investment in MBIE's services
- changing the levy rate
- the date that any changes in the Levy would become effective from.

OVERVIEW OF THE CONSULTATION PROCESS

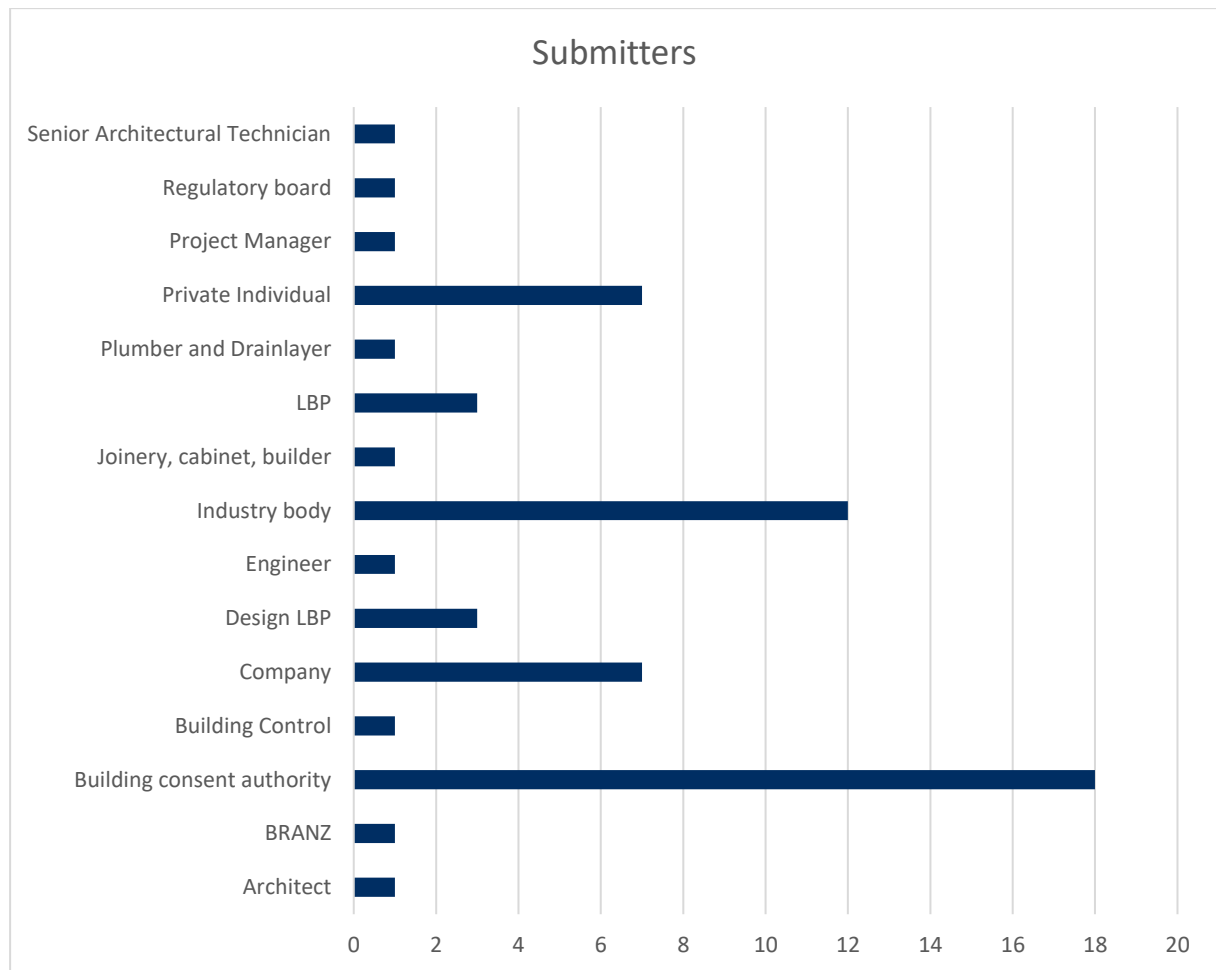
MBIE began consultation on 17 April 2023, with submissions open for a total of six weeks. An advertising campaign was launched to promote awareness of the consultation and drive target audiences to make a submission. In addition, MBIE posted on social media and emailed stakeholders to promote the consultation.

FEEDBACK WAS RECEIVED FROM A RANGE OF SUBMITTERS

A total of 59 submissions were received from a broad range of submitters. Submissions were received via either email or an online submission form. Of the submissions received, 18 were sent in by Building Consent Authorities (BCA) and 12 by industry bodies.

MBIE received responses from submitters representing a cross-section of the building and construction sector. The overall breakdown of the submissions received by submitter category is outlined in figure one, and a list of submitters is included in Annex One.

Figure one: Breakdown of submitter categories for the building levy proposals



Proposals for change

Overview

In the discussion document, MBIE proposed changes to the Levy rate and to the threshold at which the Levy applies. Proposals were also made for improvements to regulatory services to be funded out of the memorandum account surplus. This section summarises the submissions received in relation to these proposals.

Submitters:

- broadly supported increasing the threshold from \$20,444 (GST inclusive) to \$65,000 (GST inclusive)
- were divided in their views on whether to decrease the Levy rate from \$1.75 (GST inclusive) per \$1,000 of building work to \$1.48 (GST inclusive)
- overwhelmingly supported increased investment in regulatory services; with a focus on improving digital channels and engagement, compliance pathways, and building for climate change.

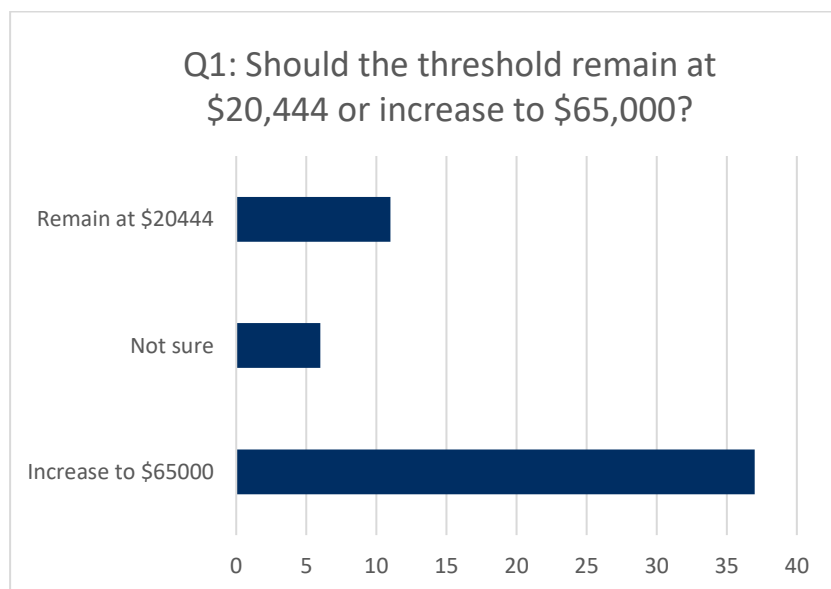
PROPOSAL ONE. INCREASE THE LEVY THRESHOLD

In the discussion document, MBIE proposed to either let the Levy threshold remain at \$20,444 or increase it to \$65,000. MBIE’s preferred option was to increase the Levy threshold to \$65,000.

Question 1 Responses: Should the threshold remain at \$20,444 or increase to \$65,000?

Overall, 54 submitters answered this question, with 68.5 per cent of submitters saying that the threshold should increase to \$65,000.

Figure two: Breakdown of submitter preferences around the Levy threshold



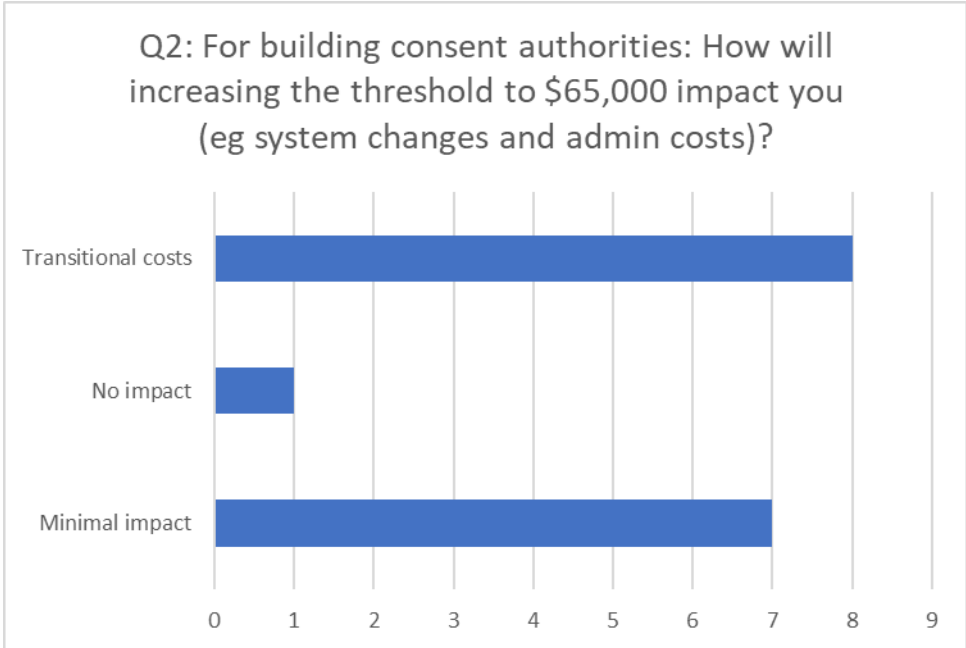
Most submitters who said they supported increasing the Levy threshold to \$65,000 thought it aligned with recent increases in the cost of building and construction. They thought increasing the Levy threshold to \$65,000 would reduce the cost for smaller building and construction projects.

Question 2: For building consent authorities: How will increasing the threshold to \$65,000 impact you?

Sixteen BCAs answered this question. Seven BCAs thought that the change would have minimal or no impact on them. For example, some BCAs said they would only need to make minor changes to their IT systems and otherwise not have any other impacts on them. Other BCAs thought that there would be transition costs (e.g. in training staff and updating consumer information). Some BCAs noted there would be a reduction in the revenue they generated from the 3% administration fee if the threshold was changed (linked also to the Levy rate), though other BCAs noted that this was a minor source of revenue so thought it would have minimal impact on their finances overall.

Some BCAs noted the possibility for more customer complaints or confusion if the change is not communicated well, and emphasised the importance of good support and guidance from MBIE as the changes are implemented.

Figure three: BCA views on how the changing the threshold to \$65,000 will impact them



Question 3: What are the unintended consequences of changing the threshold? What would be the best way to minimise these?

38 submitters answered this question, with the following unintended outcomes being identified:

- **Changes in behaviour among building system participants:** some submitters thought that people would be incentivised to put in nominal amounts to get their projects under the \$65,000 threshold and this could cause challenges later in the process if costs changed. Some submitters also noted that, depending on the date when the levy changed, building system participants could delay an application to take advantage of the higher threshold, resulting in a future bottleneck of applications for processing.
- **Positive outcomes for customers:** Some submitters thought that there would be more satisfied BCA customers from increasing the threshold. This is because consenting costs would reduce for small projects.
- **Reduced ability for future investment:** Some submitters were concerned that the increase in the threshold would result in lower levels of investment than was desirable in the building regulatory system.

PROPOSAL TWO: INCREASE INVESTMENT IN MBIE'S BUILDING SYSTEM PERFORMANCE SERVICES

The consultation document made proposals for increasing levels of investment in the following building system services:

1. digital channels and engagement
2. compliance pathways
3. building for climate change.

It was argued that increasing investment in these services would lead to improvements in:

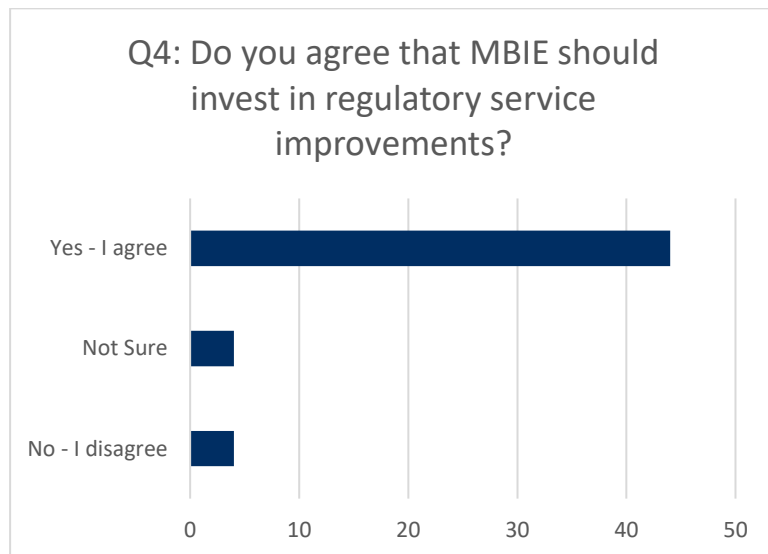
- the quality and volume of the information, education, and guidance delivered
- compliance pathways in areas such as the Building Code, and Acceptable Solutions and Verification Methods
- regulation of the building industry around climate change.

The consultation document proposed a budget of up to \$6.3 million per annum for regulatory service improvements. These costs could be met from the memorandum account surplus, without a Levy increase. If implemented the service improvements would be subject to monitoring and evaluation.

Question 4: Do you agree that MBIE should invest in regulatory service improvements?

Overall, 52 submitters answered this question, with 84.6 per cent of submitters saying that they agreed with making these investments.

Figure four: Submitter support for MBIE's proposed regulatory service improvements



Some submitters who said they supported the increased investment in MBIE's regulatory services also thought that there were other areas MBIE could invest in, including:

1. education and training
2. a national consenting system
3. guidance
4. other regulation areas such as dam safety and occupational regulation
5. determinations
6. standards
7. minimising construction waste.

A small number of submitters disagreed with investing in regulatory service improvements. Their reasons for this were that they thought that there should be less regulation of the building and construction industry, or that they did not see value in the service improvements as proposed.

PROPOSAL THREE – CHANGES TO THE LEVY RATE

As outlined in table one below, MBIE proposed eight options for changing the Levy rate in the discussion document.

Table one: Levy rate options to run down the memorandum account surplus

Investment/Memo account cost recovery scenario	Keep current service levels and reduce the memorandum account down within three years (June 2026)	Keep current services levels and reduce the memorandum account down within six years (June 2029)	Invest in service improvements over three years (June 2026)	Invest in service improvements over six years (June 2029)
Levy rates under a \$20,444 threshold	\$1.12	\$1.39	\$1.44	\$1.99
Levy rates under a \$65,000 threshold	\$1.15	\$1.45	\$1.48	\$2.06

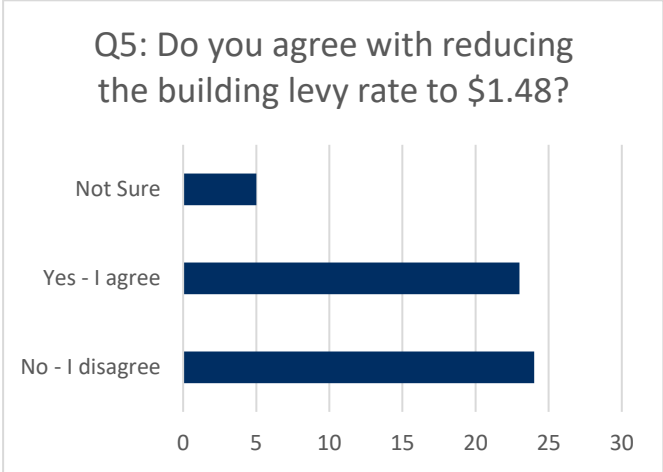
The discussion document concluded that the greatest benefits for the public would be achieved by increasing the Levy threshold to \$65,000 and increasing investment in MBIE’s building and construction regulatory services (funded from the surplus) over three years. The Levy rate consistent with these goals is \$1.48 per \$1,000 of building work.

The discussion document stated that with a Levy rate of \$1.48, the memorandum account would trend towards zero over 3.5 years. The Levy rate would be due for review again after a period of three years, giving an opportunity to adjust the rate if MBIE projections were incorrect.

Question 5: Do you agree with reducing the building levy rate to a \$1.48?

Overall, 52 submitters answered this question, with around 46 per cent of submitters saying they disagreed and around 44 per cent saying they agreed with reducing the building levy rate to \$1.48.

Figure five: Breakdown of submitters views on the building levy rate being reduced to a \$1.48



Eleven BCAs and two industry bodies agreed with reducing the Levy rate to a \$1.48

The following reasons were given for agreeing:

- **Affordability for Levy payers:** Some submitters thought that reducing the Levy rate would make the cost of building cheaper and reduce compliance costs for consumers. A number saw this as useful in supporting affordable housing or better housing stock.
- **Government should only collect what is needed:** Some submitters thought that the funding collected should align with MBIE's planned work programme. It should also be informed by what the industry needs and where the biggest gains lie.
- **Levy revenue and expenditure should be more transparent than currently:** MBIE should not receive additional funding via the Levy just because construction costs have gone up.
- **Reducing levy surplus:** Some submitters agreed that the proposed Levy rate will provide a reasonable balance for providing investments in services and reducing the levy surplus.

Six BCAs and nine industry bodies disagreed with reducing the Levy rate to \$1.48. Submitters gave the following reasons for disagreeing:

- reducing the Levy, along with increasing the threshold, would further impact the amount of cost recovery that a council can collect from the three per cent administration fee
 - the rate reduction would reduce MBIE's ability to strengthen the regulation of the building and construction sector in the longer term
 - the rate would need to be increased after 3.5 years to continue to deliver
- In addition, submitters proposed an expansion of what can be funded through the levy, including a wide range of initiatives that they would like to see funded:
- training (including competency assessment training), in particular the training for rapid building assessors to assist in emergency management preparedness
 - accreditation assessments for BCAs
 - providing technical experts and resources to help with liability and claims
 - providing resources for BCAs when they are unable to meet statutory timeframes
 - increasing resources to ensure that queries, determinations and guidance documents are provided in a timelier manner
 - increasing the pace at which Building Code changes can be made
- fund the creation, review and update of building standards across New Zealand
 - fund audit programmes
 - invest in more climate change initiatives, create a feebate system for lower carbon homes

Note - Some of the suggestions for additional funding are not currently part of the chief executive's functions under the *Building Act 2004*.

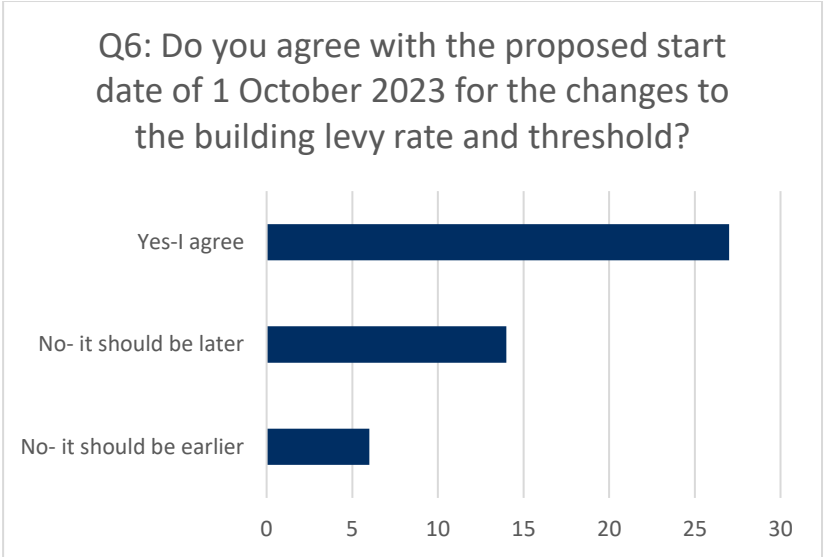
IMPLEMENTATION OF CHANGES

The discussion document proposed that changes to Levy settings would take effect from 1 October 2023. It also asked how much time BCAs will need to implement the changes.

Question 6: Do you agree with the proposed start date of 1 October 2023 for the changes to the building levy rate and threshold?

Overall, 47 submitters answered this question, with 57.4 per cent of submitters saying they agreed with the proposed start date of 1 October 2023.

Figure six: Breakdown of preferences around the 1 October 2023 start date



Five submitters¹ (all BCAs) who thought the start date should be later, thought that it should be the start of the 2024/25 financial year. This is because BCA fees, charges and levies are set as part of the Territorial Authority Annual Plan and BCAs thought that they would need to consult with the public on these changes.

Question 7: (For building consent authorities) How long would you need to implement the proposed changes to the building levy rate and threshold?

Overall, 16 BCAs answered this question, with 68.8 per cent of submitters saying it would take up to two months to implement the proposed changes to the building levy rate and threshold. Their reasons for this were:

1. changes to IT systems would take some time
2. time taken to notify levy payers that the rate and threshold were being changed
3. the need to amend Council’s procedures, systems, forms and public information
4. the time needed to train staff on the new requirements.

¹ Auckland Council did not support reducing the Levy to a \$1.48, however supported increasing the threshold to \$65,000. The council thought that the \$65,000 threshold should be implemented at the start of 2024/25.

Annex 1 – Submitter details

A total of 59 submissions were received from a broad range of submitters. Submissions were received via either email or an online submission form. Of the submissions received, 18 were sent in by Building Consent Authorities (BCA) and 12 by industry bodies. A list of the submitters follows.

SUBMITTER DETAILS		
Individual	Organisation	Stakeholder type
Shane Watkins	-	Private Individual
David Whyte	-	Senior Architectural Technician
Bronwyn Swanson	-	Project Manager
Jon Short	-	Design License Building Practitioner
Tina Donald	Mackenzie District Council	Building Consent Authority
Pat Rangihaeata	TK Development Partnership	Company
John Richards	Dunedin City Council	Building Consent Authority
Andy Johnson	AJ Design	Company
Ashley Warnes	-	Private Individual
Chris English	Queenstown Lakes District Council	Building Consent Authority
Tanya Stocks	Kainga Ora – Homes and Communities (Consentium/BCA)	Building Consent Authority
Darryn Cosford	Waitomo District Council	Building Consent Authority
Paul Henderson	Dunedin City Council	Building Consent Authority
Vanessa Mitchell	Selwyn District Council	Building Consent Authority
Dr Troy Coyle	HERA	Company
Greg Wallace	Master Plumbers, Gasfitters & Drainlayers New Zealand Inc.	Industry body
Scott Watson	Director of Naylor Love	Company
Claire Falck	Building Research Association of New Zealand (BRANZ) Inc.	BRANZ
Josh Dooley	Waitaki District Council – Building Services	Building Consent Authority
Chelsea Sharp	Hamilton District Council	Building Consent Authority
Brett Francis	Window & Glass Association	Industry body
Michael Wong	Ashburton District Council	Building Consent Authority

SUBMITTER DETAILS		
Individual	Organisation	Stakeholder type
Richard Templer	Engineering New Zealand	Industry body
Chris Hopper	Technoform ASIA Pacific Pte Limited	Company
Nick Collins	National Association of Steel Framed Housing Inc	Industry body
Malcom Fleming	New Zealand Certified Builders Association (NZCB)	Industry body
Shayne Harris	Chief Executive, Manawatu District Council	Building Consent Authority
Adam Leach	Concrete NZ Incorporated	Company
Olivia Newth	Co-Lab, Business Manager Waikato Building Consent Group.	Building Consent Authority
Nic Brooke	New Zealand Structural Engineering Society	Industry body
Sandamali Ambepitiya	NZ Property Council	Industry body
Julia Byers	Association of Consulting and Engineering New Zealand (ACE New Zealand)	Industry body
Dougal McKenzie	New Zealand Registered Architects Board	Regulatory board
Hazel McColl	Hutt City Council	Building Consent Authority
Steven Pearce	Tauranga City Council	Building Consent Authority
Nicholas W Hill	Building Officials Institute of New Zealand	Industry body
Malcom Fleming	New Zealand Construction Industry Council (NZCIC)	Industry body
Andrew Eagles	New Zealand Green Building Council (NZGBC)	Industry body
Robert Okeli	-	Private Individual
(Name withheld)	-	Private Individual
(Name withheld)	-	Private Individual
(Name withheld)	-	Private Individual
Corinne Hamlin	Thames-Coromandel District Council	Building Consent Authority
Malcolm Smith	Napier City Council	Building Consent Authority
Isabel Funari	Registered Master Builders Association	Industry body
Lachlan McGuinness	-	Private Individual
Jason Quinn	Sustainable Engineering Ltd	Company

SUBMITTER DETAILS		
Individual	Organisation	Stakeholder type
Freya Priestnall	-	Private Individual
Luke Crichton	-	Engineer
Chris Howell	Director	Design License Building Practitioner
Sarah Broomhall	Invercargill City Council	Building Consent Authority
Kevin Thompson	-	License Building Practitioner
Troy	-	License Building Practitioner
Andrew Evans	A E Architects Ltd	Architect
Jon Lewis	-	Plumber and Drainlayer
Jason Higham	-	Design License Building Practitioner
Colin Bryant	Bryant Builders Ltd	Licensed Building Practitioner
Denise Whelan	Auckland Council	Building Consent Authority