



## COVERSHEET

<b>Minister</b>	Hon Chris Penk	<b>Portfolio</b>	Minister for Building and Construction
<b>Title of Cabinet paper</b>	Modernising Building Research	<b>Date to be published</b>	23 December 2025

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
November 2025	Modernising Building Research	Office of Minister for Building and Construction
12 November 2025	Modernising Building Research ECO-25-MIN-0188 Minute	Cabinet Office
17 October 2025	Regulatory Impact Statement: Reforming the building research funding system	MBIE

### Information redacted

**YES**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of Commercial Information, free and frank opinions and Confidential advice to government.



# Regulatory Impact Statement: Reforming the building research funding system

<b>Decision sought</b>	<i>Cabinet decisions to amend the Building Act 2004 to include building research and expand the purpose of the Levy</i>
<b>Agency responsible</b>	<i>Ministry of Business, Innovation and Employment</i>
<b>Proposing Ministers</b>	<i>Minister for Building and Construction</i>
<b>Date finalised</b>	<i>17 October 2025</i>

## **Context for change**

A strong building and construction sector is vital to New Zealand's housing, infrastructure, and economic goals. This relies on effective research and innovation.

The Minister for Building and Construction wants to ensure that funding levied for building research delivers greater value to the sector, building owners, and the wider economy.

Currently, two main levies support the system:

- The building levy (under the Building Act 1991), collected by Building Consent Authorities (BCAs) from building owners and passed to MBIE to fund regulatory functions.
- The research levy (under the Building Research Levy Act 1969), also collected by BCAs but passed directly to the Building Research Association of New Zealand (BRANZ). Since 2014, BRANZ has received \$263 million in levy funding.

The building levy aligns with Auditor-General guidelines, requiring regular reviews, input from levy payers, and Ministerial or Cabinet approval for funding decisions, ensuring transparency and oversight. In contrast, the Building Research Levy Act has never been reviewed and lacks modern accountability mechanisms. While the research levy model remains valid, the sector and legislative context have evolved significantly. A more contemporary and transparent approach to managing the research levy is now needed.

The Minister sees an opportunity to modernise how the research levy is collected, managed, and distributed to improve outcomes through combining the research levy with the building levy.

Reform will be delivered in two phases:

- Phase 1 (2025–2026): Establishes a new legislative framework and principles for a revised operating model. Clarifies who is responsible for paying the research levy, how it is collected, who is responsible for funding decisions, and the role of BRANZ in the new system.
- Phase 2 (2026-~~Conf~~): Develops the detailed design of the new model. Based on the principles agreed in Phase 1, decisions at this stage will clarify the operational design of the implementation, including incorporating research consultation into the building levy review, public consultation on the approach, and giving effect to the principles that research decision making is informed by a balance of sector, research and government input.

## Summary: Problem definition and options

### What is the policy problem?

The Building Research Levy Act 1969 (the Act) is out of date and requires reform. We have identified two main problems with the status quo:

#### 1. Duplication, inefficiency in levy collection and administration

New Zealand's 68 BCAs collect both the building and research levies when issuing building consents. The research levy is passed directly to BRANZ, while the building levy goes to MBIE. This dual process creates inefficiencies and places a duplicative administrative burden on BCAs. We have heard that for larger councils the levies are considered under a general 'levy' umbrella, with the difference that they are being paid to separate recipients through two line items. It is likely that smaller councils are unable to automate due to limited funding or capability. Because the research levy bypasses MBIE, it's difficult for the Ministry or the sector to track how funds are used or assess whether the levy rate is appropriate. This mechanism has prompted the sector to question the appropriateness of research decisions, and impact of the research being undertaken.

A misalignment also exists between levy payers and beneficiaries, arising from builders - who are set in the Act to pay the research levy - likely passing on the cost of the levy to building owners. We do not consider that it is efficient to levy the same group twice, as building owners also pay the building levy.

#### 2. Lack of transparency of decisions and levy spend

BRANZ is an independent incorporated society with the statutory remit for undertaking building research and is accountable to its members. It is the sole recipient of the building research levy (receiving approx. \$24 million in 2024). BRANZ allocates funding internally and through limited contestable funding. Any levy-paying builder can apply to become a member, though no individual memberships are recorded. The sector has expressed concern that the current legislative structure means there is little incentive for BRANZ to make public more information than currently without legislative change.

The sector has raised concerns about BRANZ's responsiveness and transparency in how levy funds are used and allocation is decided. While BRANZ has governance structures to guide research priorities and spending, these are not publicly transparent and are complex. Its reporting obligations are largely defined by its constitution, not regulation, although the Act sets out that they must table their report in the House of Representatives via the responsible Minister.

The symptom of this aging legislation is that it has not kept up with public finance legislation and expectations.

The Public Finance Act governs how public service agencies manage the funding they receive, including how they inform the public of how it is spent. The office of the Auditor General has produced best practise guidance for setting and administering levies. The research levy structure in its current form requires legislative change to be modernised appropriately.

### **What is the policy objective?**

The overall objective is that the research funded by a levy delivers the best value for the system, in the form of quality buildings, productive practices, and ultimately is a public good service contributing to an overall high performing building and construction system.

Ultimately, the Minister's intent is to retain levy funding for building research as it serves an important purpose in solving a coordination failure in the system. As set out in further detail throughout the RIS, the sector is too fragmented and research too expensive and resource-intensive for individual organisations to undertake it individually.

The criteria by which the options are analysed against the objective are:

- Efficiency
- Transparency
- Accountability
- Responsiveness
- Effectiveness

The outcomes that are sought include securing funding support for enhancements to the building sector which is an economic and productivity enabler. A high performing building sector is important to securing the future of New Zealand by enhancing the buildings that we live, work and play in.

### **What policy options have been considered, including any alternatives to regulation?**

This RIS covers Phase 1 of proposed reform (the new legislative framework). The following three options were assessed in detail:

1. Status quo – Building Research Levy Act 1969 remains authorizing legislation for collecting levy, and paying for building research
  - a. Maintains current settings and legislation with no improvement or modernisation
  - b. Maintains BRANZ as sole recipient, limited government and public oversight

- c. Maintains misalignment between legislation and in-practice levy payment, and inefficiency through levying the same group twice.
- 2. Update the Building Research Levy Act 1969 to improve transparency and accountability and retain sector ownership
  - a. Under this option, the sector would still be liable to pay two levies and BRANZ would remain the sole recipient of the research levy. As an incorporated society they would remain accountable to their members. It retains the sector-ownership model.
  - b. The Act would be updated to reflect contemporary expectations for transparency, accountability, and responsiveness. This could include providing for parliamentary scrutiny at Estimates, enhanced reporting requirements, legislating Ministerial oversight on funding decisions and inserting statutory public consultation provisions. It would also provide for a review cycle to enhance efficiency (to ensure rate and expenditure is appropriate).
  - c. It would redefine the group identified as levy payers and separate the research levy from the building levy in practice which would maintain administrative burden, or potentially add administrative requirements for MBIE.
- 3. Combine the building research levy and the building levy under the Building Act 2004, ringfence a portion of the overall levy for building research, and repeal the Building Research Levy Act 1969
  - a. The research and building levies are merged and the collection and distribution processes are streamlined. Councils will no longer need to calculate different levies and separately distribute levies. It also means that the inefficiency of levying the same group twice is resolved.
  - b. A portion of the levy is ring-fenced for building research, with opportunities to review over time. This secures ongoing funding for critical building research to support the sector. The MBIE-run Research Funding New Zealand<sup>1</sup>, could be utilized to make independent decisions on research based on the expected outcomes set through public consultation by the Minister.
  - c. The building levy review every three years provides the vehicle for inviting sector (levy payer) participation through consulting on the levy rate, threshold, and additional matters around research objectives and areas of focus.
  - d. Research matters would be subject to parliamentary scrutiny levy payers by consolidating. It also achieves the government aim of reducing duplication and improving efficiency in legislation and regulations.
  - e. This approach utilises the existing building levy mechanism to ensure the research levy is administered in accordance with legislative requirements and public finance management principles.

<sup>1</sup> [Simpler science funding to drive innovation | Beehive.govt.nz](https://www.beehive.govt.nz/policy/simpler-science-funding-to-drive-innovation)

Option 3, the Minister's preferred approach, is being delivered in two phases. Phase one (legislative change) is outlined above; phase two will define the revised operating model. It will require further Cabinet decisions on regulatory and operational settings, including overall funding allocation to research, administration arrangements, and operational design considerations e.g. the balance between contestable and allocated funding.

Principles guiding decisions on how the new system will work:

- The system will need to be efficient, using the empowering/enabling legislation to set out a streamlined implementation approach
- Leverage previous building research levy investments (make sure that there is funding for continued use and maintenance of these significant investments)
- Transparent, accountable - all processes are designed in line with these criteria
- Responsive to sector and government priorities - through the review, and in line with the policy objectives set out above.
- Effectiveness- to measure the impact of research and to maximise the investment of levy expenditure.

#### *Non-regulatory considerations*

Non-regulatory measures, such as expanding the membership of the BRANZ Board and increasing contestable funding, have been tried with partial success following a 2012 MBIE-led market study into residential construction. However, due to the age of the legislation and ongoing policy issues, both MBIE and the Minister consider legislative change necessary.

MBIE has not explored repealing the Building Research Levy Act without a solution for building research because building research is an important precursor to a high performing and productive building sector. Without government coordination, the fragmented, undercapitalised, small-scale businesses in the sector would not be able to collaborate effectively to fund research to improve construction techniques, increase productivity and fuel economic growth.

#### **What consultation has been undertaken?**

A short period of targeted engagement was undertaken with key stakeholders, including BRANZ, Master Builders, the MBIE Building Advisory Panel, and relevant MBIE teams, and one Building Consent Authority (Auckland Council). There is general support for the review, with stakeholders recognising the value of BRANZ's levy-funded work but calling for greater transparency, accountability, and government oversight.

BRANZ has been actively involved throughout, providing input to the Minister and consulting its Building Research Advisory Council (BRAC) and the BRANZ Board. While its advice informed the options analysis, MBIE considers its preferred approach (option 2) may not fully meet policy objectives. We believe that BRANZ will be opposed to option 3, as they have expressed their concern with the perceived loss of independence from government and limitations in the Building Act. We intend to design the system to ensure these are

addressed.

Engagement to date has limitations, particularly with builders (who are legislated to pay the levy), building owners (who likely pay it in practice) and 3<sup>rd</sup> party research providers who currently interact with BRANZ. Given the proposed shift in legislative responsibility from builders to owners, and the need to make future decisions about funding allocation processes, engagement with these groups is essential. MBIE plans to consult them during Phase 2, as part of the detailed design of the new operating model. We also expect engagement with the public throughout the Select Committee process for the Building Act Amendment Bill in 2026.

The preferred option is yet to be consulted on fully, however all targeted engagement set out the options that would be considered.

**Is the preferred option in the Cabinet paper the same as preferred option in the RIS?**

Yes, both MBIE and the Minister prefer Option 3 - combine the two levies under the Building Act 2004, ring-fence funding for research and repeal the Building Research Levy Act 1969.

## Summary: Minister's preferred option in the Cabinet paper

### Costs (Core information)

**Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)**

Costs apply to most parties impacted by this change. For example, MBIE will see legislative and policy development costs and an increase in implementation costs through the building levy review cycle and monitoring and liaising with the decision-making entity. At this stage the cost of this is uncertain but could comprise 1-2 FTE for certain periods of time around the review. We are not certain about the detail of these outcomes, but a risk/area of uncertainty is around the likelihood that BRANZ will see a cost through change of income structure due to funding redirection, and potential administrative costs in rewriting their constitution. We have also considered the impact on the efficient use of levy-funded assets and infrastructure, noting that contestable funding may lead to underutilisation if research is directed elsewhere. To support this short-term disruption being as smooth as possible MBIE is proposing transitional arrangements for BRANZ. Building owners are not likely to see a real-terms change in costs as we believe they already in practise pay the research levy. There will be a cost to MBIE through the threshold change to align with the building levy, and a slight reduction in levy income. BCAs may see a slight reduction in income through the combined levy changing the percentage they retain for administration of the levy (currently 3 percent in the Building Act, however 5 percent in the Building Research Levy Act). Commercial information [REDACTED]. The sector may see the change as a loss, given the research levy has been an industry-good levy - owned and paid for by the sector.

### Benefits (Core information)

**Outline the key monetised and non-monetised benefits, where those**

**benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)**

The sector and levy payers will continue to benefit from ongoing funding for building research through a different pathway. Levy payers and the sector will benefit most through seeing improved transparency, greater input into research direction, and clearer levy accountability to Parliament. Levy payers also benefit from modest savings through the threshold aligning with building levy. The levy will be more responsive to sector needs and government priorities, ultimately enhancing the built environment, and supporting building and construction as a core economic enabler. The Minister supports expanding contestable funding, which could enhance research outcomes, and benefit the wider New Zealand research sector. Government gains regulatory efficiency by reducing the number of Acts. Levy payers will see greater efficiency as they will no longer be levied twice. BCAs benefit from streamlined administration by removing the need to manage two separate levies.

**Balance of benefits and costs (Core information)**

**Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?**

While all parties see variable costs and benefits under the Minister's preferred option, we consider that with improved efficiencies through the combined levy collection and reduction in pieces of legislation, greater transparency and accountability and better responsiveness the benefits outweigh the costs of option 3. Further work will be done to ensure the design of Phase 2 work is efficient and does not impose unreasonable costs on participating parties.

**Implementation**

**How will the proposal be implemented, who will implement it, and what are the risks?**

The Building Act Amendment Bill is due to be introduced in 2026. MBIE intends to include the legislative change to give effect to Option 3 decisions in this bill. The proposed implementation will be rolled out following the passage of the Bill in 2026, and occur in line with the outcomes of the building levy review due to come into effect in Co 2026. The Minister is proposing transitional arrangements to allow BRANZ to continue operating under current levels of funding until the new funding allocation model fully comes into effect. Further phase 2 activity will include report back to Cabinet for further decisions on design and regulations to support the legislative change.

**Limitations and Constraints on Analysis**

Targeted engagement was undertaken during the review of the Act, however time and sensitivity constraints meant that public consultation with external researchers, builders and building owners was not possible. MBIE intends to undertake engagement with these groups during detailed implementation design in Phase 2.

**I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.**





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**Micheal Warren**  
**Manager, Systems and**  
**Markets Policy**  
20/10/2025

<b>Quality Assurance Statement</b> <i>[Note this isn't included in the four-page limit]</i>	
<b>Reviewing Agency:</b> MBIE	<b>QA rating:</b> Partially meets
<b>Panel Comment:</b> A Quality Assurance Panel from MBIE has reviewed the Regulatory Impact Statement (RIS) prepared by MBIE titled "Reforming the Building Research Funding System" on 5 November. The Panel consider that the information and impact analysis summarised in the RIS partially meets the Quality Assurance criteria.  The primary reason it is only a partially meets is that the inability to consult in detail on the preferred option with key stakeholders, and the implementation risks that arise from this. The panel does note that you plan to mitigate this through the two phase approach, and transitional arrangements as part of implementation.	

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## **Section 1: Diagnosing the policy problem**

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

*The status quo:*

1. The Building Research Levy Act 1969 was introduced to address a coordination failure in the system in which individual practitioners and businesses were disincentivized to be first-movers in building research. Building research is important to ensure a productive and efficient building sector. The coordination failures from 1969 exist today, arguably in an even more fragmented system.
2. The Act enables the collection of a levy for the purposes of funding building research, it also sets out who the levy is to be paid by and to whom (BRANZ), and what the levy can be spent on. The legislation has never been reviewed so the Act is outdated in what it prescribes for levy expenditure, and in how it prescribes levy management, reporting and Ministerial oversight.
3. BRANZ has been the sole recipient of the building research levy for more than 50 years. The research levy is collected at the point that a building consent is approved, by the BCA, and distributed directly to BRANZ monthly. This is done at the same step as the building levy collection. The

amount that BRANZ receives through the research levy fluctuates year on year, as it is tethered to the value of building work. In 'boom' years, the research levy generates a greater income for BRANZ than in 'bust' years. For example, in 2022, when the building industry saw record volumes of building work (50,000 total new dwelling consents), the building research levy collected \$33 million, distributed straight to BRANZ.

4. The provisions in the Act give BRANZ almost complete autonomy over the administration of the levy. Section 4 sets out that the Minister prescribes the rate of the levy and would need to consult with BRANZ and Master Builders to change it. Section 13 sets out that financial statement must be sent to the Minister and members but the role of the responsible Minister does not go any further than tabling the annual report in Parliament.
5. BRANZ has operated with this high degree of autonomy over the expenditure of the building research levy for more than 50 years. In the last 12 years BRANZ has received \$263 million in levy funding. Due to the levy by-passing MBIE, we are unable to calculate the total amount that the levy has brought in over its lifetime. This level of independence is notable, particularly when compared to other publicly-funded organisations that are subject to more formal reporting requirements, including financial disclosures to Parliament and appearances before select committees.
6. This degree of autonomy has benefited the sector in that BRANZ has been able to focus solely on producing research contributing to the improvement of the building and construction sector. These contributions include investment in a purpose-built fire lab, and a structural engineering lab. Both of these present significant levels of investment, and provide value to the New Zealand building and construction sector, especially when testing products and methods against weather events, fire safety and natural disasters.
7. If left unchanged, the counterfactual would continue benefit from the scale and focus of a singular levy funding a singular entity to continue to research innovation and advancement in building methods and technologies. The scale of the counterfactual is significant, however both BRANZ themselves, and the sector agree that the counterfactual is not fit for purpose and must be improved to meet modern requirements.
8. Without the research levy investment into BRANZ and building research, the sector would still face the fragmented and complex landscape that disincentivises individuals from pursuing their own research. It is an expensive undertaking, and the small businesses that largely make up the sector do not have the capacity or resource to undertake meaningful research.
9. Additional to the activity undertaken by income from the research levy, BRANZ also operates a commercial arm, BRANZ Ltd. BRANZ Ltd conducts externally commissioned research projects for a variety of organisations including other government departments such as Ministry of Housing and Urban Development, Ministry for the Environment, Ministry of Education and Stats NZ. BRANZ Ltd has received over \$4.4 million from government

departments in independently commissioned research since 2018. This is through the BRANZ Ltd, commercial testing and research arm.

10. Free and frank advice



<b>BRANZ Annual Income (reported via Annual Reviews)</b>		
Year	Building Research Levy (000's)	BRANZ Ltd income (000's)
2014	12.48	7.46
2015	14.57	6.53
2016	16.99	6.78
2017	18.44	7.2
2018	19.83	7.57
2019	21.53	8.22
2020	22.7	8.4
2021	23.9	7.59
2022	30.39	7.69
2023	31.53	7.84
2024	26.51	9.39
2025	24.39	8.69
<b>TOTAL</b>	<b>\$263.26 million</b>	<b>\$93.36 million</b>

11. The governance structure of BRANZ has been developed to ensure rigour around the expenditure of the research levy. BRANZ has a Board of 6 members which is responsible for the governance of both BRANZ Inc (levy-funded) and BRANZ Ltd (commercial arm). Sitting under this is the Building Research Advisory Council (BRAC). The BRAC is a broader advisory body of up to 20 members, representing industry, trades, business, consumers, and government. Its role is to advise BRANZ on sector issues and support its responsiveness and accountability to the building and construction sector. It also has an electoral role, and appoints several members to the BRANZ board.
12. While BRAC contributes to sector engagement, feedback received during MBIE's targeted engagement indicates that this mechanism is insufficient. Stakeholders expressed a need for stronger consultation and responsiveness, both to the sector and to government.
13. When the Act came into effect it was the only levy that the sector was liable to pay. Over time the sector has evolved in complexity and make-up, through professions in the sector, building typology, environmental factors and scale of work.
14. Relevant sector evolution since the Act came into effect:

<b>Milestone</b>	<b>When &amp; What</b>
Building Research Levy Act 1969	1969, came into force 01 January 1970
Building research levy reviewed and set at maximum rate	1977, set in regulations
Public Finance Act 1989	Principles for responsible fiscal management of public funds established
Building Act 1991	Introduction of a new building levy to fund regulatory functions
Building Act 2004	Amendment in response to regulatory failures, increase in building levy rate
MBIE market study into whole residential construction sector, BRANZ-specific recommendations for review to then-Minister for Science and Innovation	2013, several non-regulatory recommendations adopted by BRANZ have sustained, others not adopted
Minister for Building and Construction undertakes review of the Building Research Levy Act 1969	2025, with a view to ensuring that the levy collected is delivering the maximum value on investment

*Improvement recommendations have been made in the past*

15. In 2012, MBIE's market study into residential construction raised concerns that levy-funded research disproportionately benefited upstream actors (e.g. manufacturers) over downstream users (e.g. builders and tradespeople). In response, MBIE implemented non-regulatory changes, including expanding the BRANZ Board, adjusting the appointment process, and increasing contestable funding.
16. Further recommendations, such as formalising governance arrangements and reviewing the Building Research Levy Act, were not adopted. One proposal to apply accountability principles from the Commodities Act 1990 was considered but later discounted. This lack of oversight prevents levy payers, who are also the intended beneficiaries, from assessing whether the research delivers value for money.
17. While approximately 30% of levy funding in 2024/25 is allocated to contestable research, which other entities (including BRANZ Ltd) can bid for, the majority of funds are used for capital investment, in-house research, and operational costs.
18. BRANZ determines the scale of contestable funding, which creates a potential conflict of interest, as it acts both as fund manager and potential bidder. BRANZ has internal processes to manage these conflicts, including recusal from decision-making. However, it remains unclear how these processes ensure fairness and transparency for all bidding parties.

*Financial reporting requirements for the research levy are largely unchanged since 1969 under the Building Research Levy Act*

19. Under the Building Research Levy Act 1969, BRANZ is required to maintain accurate accounting records, prepare audited annual financial statements, and provide these, along with an activity report, to the Minister, MBIE's Chief Executive, and its members (sections 11-13).
20. BRANZ meets these obligations through its Annual Review, but the financial reporting is high-level, with expenditure grouped into broad categories (e.g. personnel and operating costs). This limits stakeholder ability to assess the appropriateness of the levy rate and threshold, the efficiency of levy use, and the value of alternative funding arrangements.
21. Following BRANZ's re-registration under the Incorporated Societies Act 2022, it is expected to meet Tier 1 or 2 not-for-profit reporting standards. However, due to timing, the impact of these changes on public reporting will not be clear until the next annual reporting cycle is complete.

### **What is the policy problem or opportunity?**

**In September 2025 MBIE undertook a rapid review to understand the way the levy is administered under the Act**

22. MBIE has undertaken desktop analysis of the Act and publicly available documentation around the building research levy. Additionally, we have engaged with BRANZ and other sector representatives to understand more about the management of the research levy and legislation surrounding it. We looked at it against the following criteria:
  - a. Efficiency and Efficacy
  - b. Transparency
  - c. Accountability
  - d. Flexibility
  - e. Competition
23. The criteria used to assess reform options differ slightly from those outlined above. This reflects the evolving nature of the work programme and the incorporation of additional considerations and direction from new information as work progressed.

**Misalignment and inefficiency between who pays the levy, how it is collected and allocated, and who benefits from the scope of research**

24. Under the Act, the research levy is to be paid by "builders" as a percentage of the value of building work. The sector has grown more complex since 1969, and many who benefit from the research, such as designers, manufacturers, and building owners, aren't formally recognised as levy payers, but they enjoy the outcomes from the research.
25. Additionally, the research funded by the levy supports a wide range of professions across the building sector, including designers, architects, engineers, and various trades. By failing to define 'builder' and excluding other relevant professions, the disconnect between those who pay the levy and those who benefit from the research persists.
26. Originally, the levy funded research into building techniques and materials. Today, sector needs have evolved beyond this narrow scope, and some of the research now undertaken likely falls outside the Act's original intent.

27. It is likely that for most, building work that triggers levy payments are undertaken rarely – for example, building a house is likely to be a once-in-a-lifetime event. Because of this, when the invoice is charged to homeowners with the research and building levies, they likely do not know what they are, or that they are only legally required to pay the building levy.
28. For those who are more connected into the building system, they may accept that builders pass through the levy as a business expense and accept this as a cost of building. We do not have good information to understand if any invoices are disputed based on the building research levy, and have assumed that it is likely behaviour that building owners accept the cost at face value.
29. The assumption that the research levy is passed to building owners creates inefficiency due to the same group effectively being levied twice. Furthermore, because building owners are not eligible under the Act to become BRANZ Inc members, they do not possess the ability to feed in on any decision-making.
30. New Zealand’s 68 BCAs collect both the building and research levies when issuing building consents. The research levy is passed directly to BRANZ, while the building levy goes to MBIE. This dual process creates inefficiencies and places an administrative burden on BCAs. Because the research levy bypasses MBIE, it’s difficult for the Ministry or the sector to track how funds are used or assess whether the levy rate is appropriate.
31. The two pieces of legislation setting two different levies with the intention of two different parties paying the levies has created this inefficiency and duplication. We do not consider that it is efficient for the same group to be levied twice.

#### **Lack of transparency of decisions and levy spend**

32. As an incorporated society, BRANZ is accountable to its members. Any levy-paying builder can join, though no individual memberships are recorded. As sole recipient of the building research levy, BRANZ enjoys almost full autonomy as to how the levy is spent, and has acknowledged research that sits outside the bounds of the legislation should be funded by the research levy.
33. The sector has raised concerns about BRANZ’s responsiveness and transparency in how levy funds are used. While BRANZ has governance structures to guide research priorities and spending, these are not publicly transparent and can be complex. Its reporting obligations are largely defined by its constitution, not regulation.
34. The governance structures around membership make up, the BRAC and research levy expenditure are set in their Constitution. The detail on Annual General Meeting structures is set out in the Constitution. Other transparency requirements adhere to the Incorporated Societies Act, to meet the requirements of their registration as an incorporated society, as opposed to the requirements in the Building Research Levy Act.
35. The Incorporated Societies Act 2022 requires BRANZ Inc to meet the highest level of financial reporting standards due to the scale of income received from the research levy.

36. BRANZ is subject to tiered reporting requirements aligned with External Reporting Board (XRB) standards, which are designed to improve consistency, transparency, and public accountability.
37. MBIE does not currently have direct access to all information, and there is limited clarity on how this information is made available to members or the public.
38. It is expected that, as societies transition to the new regime and re-register under the Act by April 2026, financial information will become more accessible, supporting improved oversight and transparency.
39. However, financial disclosures are one part of the transparency piece. There is also limited visibility on the methodology to decide on research funding allocation and the like.
40. The Minister has expressed a desire to increase competition through increasing the amount of research levy funding available contestably. BRANZ currently provides a platform for external researchers to access contestable funding. In 2024-25 this was approximately 30% of newly allocated research funding. The increase in contestable funding was recommended by the 2012 market study, and has endured.
41. The contestable funding decision process is managed by BRAC and BRANZ Board. The funding is accessible to anyone undertaking building research, provided their proposal meets the prospectus requirements set by BRANZ. This means that BRANZ Ltd can apply for research levy funding, and this has fuelled concerns about competitive neutrality.
42. **Free and frank advice**

**Public finance management expectations have evolved, the Act has not kept up**

43. Public organisations are governed by the Public Finance Act 1989 in the way that they manage, monitor and report public funds. This legislation came into force after the Building Research Levy Act, and because the Act hasn't been reviewed it does not meet the requirements of producing annual reports or Estimates statements, BRANZ is not required to be answerable to a Select Committee despite the significant income from a government levy.
44. Additionally, BRANZ as an independent incorporated society does not fall under the scope of the Official Information Act, despite their significant role in making decisions on allocation of a government levy.
45. The Act sets out that they must keep financial records and have them audited. It also sets out that they must provide these to the Minister (responsible for the Act) and their members. We have assumed - in the absence of other affirming information - that this is in the form of the annual review. This is also published online and publicly available, however there is no mechanism for the Minister or government to feed in on any decisions or reporting.
46. The independence from government was addressed as a potential area for improvement (through a Memorandum of Understanding) in the 2013 residential market study, however was not adopted by Ministers or BRANZ.

*Other Incorporated Societies receive levy funding, however their legislation is structured differently to the Building Research Levy Act 1969*

47. The Commodity Levy Act 1990 sets out that Orders in Council (OIC) can impose levies on certain commodities. Every time a levy is authorised it must include certain specifications, including the organisation receiving the levy, the commodity itself, persons responsible for paying the levy and the basis on which the amount of the levy is to be calculated or ascertained. Section 13 also sets out that a levy order can be in force for no longer than 6 years, unless extended by the Minister.
48. For example, New Zealand Citrus Growers Incorporated are an incorporated society with 330 members, and a levy was set on citrus fruit grown in New Zealand in 2019. The levy must be paid to NZCGI. Their group of payees are citrus growers in New Zealand, and the OIC sets out that no grower is exempt from paying the levy.
49. It also sets out that each year the NZCGI must consult growers (levy payers) on how it proposes to spend levy money.

### **What objectives are sought in relation to the policy problem?**

50. The overall objective is that the research funded by a levy delivers the best value for the system, in the form of quality buildings, productive practices, and contributes to an overall high performing building and construction system.
51. Ultimately, the Minister's intent is to retain levy funding for building research as it serves an important purpose in solving a coordination failure in the system.
52. The criteria by which the options are analysed against the objective are:
  - Efficiency
  - Transparency
  - Accountability
  - Responsiveness
  - Effectiveness
53. The outcomes that are sought include securing funding support for enhancements to the building sector which is an economic and productivity enabler. A high performing building sector is important to securing the future of New Zealand by enhancing the buildings that we live, work and play in.

### **What consultation has been undertaken?**

54. MBIE has undertaken targeted engagement with a select number of stakeholders with a direct involvement with the Act and the building research system in general. We have consulted with:
  - a. Master Builders, a membership organisation representing approximately 3,000 members, who are named in the Act as a consultative party for prescribing the rate of the levy.
  - b. BRANZ, as the stakeholder with significant interest and investment in the future of the levy, were consulted with on a weekly basis. The Minister for Building and Construction met with BRANZ after the



decision was made to shift Ministerial responsibility of the Act from the Minister of Science, Innovation and Technology. MBIE continued to engage with BRANZ through a series of questions to gain further understanding of their operations and structure. BRANZ also supplied a series of briefings to the Minister throughout this process.

- c. MBIE also engaged with the Building Advisory Panel, which is a statutory panel of industry experts set up to provide independent strategic advice to MBIE on issues facing the construction sector. It is made up of one building consent authority representative, and representatives from Urban Development Institute of New Zealand, the engineering fraternity, offsite manufacturing, Heavy Engineering Research Association, New Zealand Certified Builders and Mitre10.

#### General Feedback

55. There is support for reviewing the Act. Some sector representatives have stronger views than others, however the general consensus is that there is a perception that the current system isn't delivering for the sector as well as it could. The commentary included observations that BRANZ is operating within the legislative settings, however because the settings have not kept pace with changes the perception of limited transparency and accountability persists.
56. Some stakeholders have indicated that they believe that levy expenditure has strayed beyond the purpose of the Act. BRANZ has supplied information to MBIE throughout engagement indicating that their 10-year research strategy is focused on the wider sector than levy payers specifically.

#### Governance

57. Feedback provided in relation to governance includes insight that the sector feels that BRANZ is not listening, and it is not considering the needs of the sector when making decisions on levy expenditure and research projects. Some stakeholders feel they are missing out on opportunities to explore technological advancements to support improved building practices as this is not provided for in the legislation and is not in line with BRANZ's research approach.

#### Reporting and transparency

58. Communication with the sector is an issue that several stakeholders identified. The Act stipulates that the research developments must be delivered to the sector through a variety of methods (public meetings, publication of information, holding of lectures, seminars to disseminate information). However, the feedback from the sector was that this could be improved.
59. When tested, stakeholders agreed that there could be further transparency applied to their reporting and to clarify research decision-making. Other stakeholders also raised matters where they had attempted to work with

BRANZ to gather information to support their work but did not receive anything.

#### What BRANZ says

60. In discussions with the BRANZ CEO and other leadership, MBIE heard a willingness to support the review and agreement that the current legislation is outdated. This represents a change in approach since 2016 when then-CEO did not recommend a review, as set out in a letter to the then Minister for Science and Innovation. BRANZ strongly supports a rewrite of the Act over repealing the Act and integrating the building research levy with the building levy. We do not believe BRANZ will support option 3. We have indicated at a high level that option 3 was being considered by the Minister. BRANZ is aware of the three options that have been considered and analysed.
61. BRANZ has provided advice to the Minister for Building and Construction and MBIE that a rewrite the Building Research Levy Act 1969 is best approach. It has provided detailed advice to support their stance, including adding clearer reporting, sector engagement, and accountability to levy-payers to ensure the levy doesn't fund commercial activities. BRANZ is concerned increased government oversight of research may not best serve the sector.
62. Further insight from BRANZ includes detail on how its governance structures are coordinated to avoid conflicts of interest and to provide rigour to decisions around levy expenditure. MBIE believe this has further contributed to perceptions of opaqueness as these can be complex in nature and have similar or overlapping remits.
63. MBIE and BRANZ both acknowledge that any change to legislation will have significant impacts on its organisation, including its ability to maintain its research infrastructure and capital investments. Transitional arrangements are proposed to reduce the impact of any disruption.
64. BRANZ surveyed the BRAC to glean their views on the Act. They reported that building research is essential to the health of the sector, and 19 respondents believed that building research should be independent to government. On the topic of levy reviews and levy payer involvement, over 75% of respondents believes that the thresholds should be reviewed on a regular basis, with the sector having a say in any changes, however 52% thought that the current rate and threshold was correct.
65. BRANZ has shared concerns that amalgamating the two levies will result in a loss of specialist capability, and an increased misalignment with sector needs. We have taken this into consideration and proposed that a ring-fenced amount be allocated to building research from the amalgamated levy to ensure continuity and maintenance of research to support the sector.

#### *Limitations to the breadth of consultation*

66. In undertaking targeted engagement we recognise that we have not consulted widely with the builders (who the Act sets out are charged the levy), outside of Master Builders and Certified Builders representatives. We

- also have not engaged with building owners (who in the future-state will be charged the combined levy although in practise likely pay it already).
67. This is largely due to time constraints not making the process to effectively engage with a larger group like builders and building owners possible, as well as sensitivity constraints.
  68. As the proposed approach is set out in two phases, we intend to engage fully with builders and building owners in the detailed design of the new operating model (phase 2) to ensure we have the best information available to us.

## **Section 2: Assessing options to address the policy problem**

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

69. MBIE has assessed the status quo and options for reform against the following criteria:

<b>Efficiency</b>	The administration of the levy and legislation reduces duplication, and the levy is set at an appropriate rate to meet the needs of the levy payers
<b>Transparency</b>	Information about levy collection and expenditure is readily available and accessible to all stakeholders, including how the levy is set and the components of its expenditure
<b>Accountability</b>	Measurable performance outcomes are established, reporting is transparent, reviews are frequent, and stakeholders can help shape research priorities and engage in the system.
<b>Responsiveness</b>	There is greater flexibility to review and adjust the levy rate and the legislation enables research settings that are flexible, agile and adaptive to changing sector and societal expectations.
<b>Effectiveness</b>	Decision making around research funding is clear and optimised to ensure the best research outcomes

### **What scope will options be considered within?**

70. As set out above, the Minister wants to ensure that funding levied for building research delivers greater value to the sector, building owners, and the wider economy.
71. The scope of this RIS is to establish the new legislative framework and principles for a revised operating model. It also clarifies who is responsible for paying the research levy, how it is collected, who is responsible for funding decisions, and the role of BRANZ in the new system.

72. We propose two stages to this work programme:
- a. **Phase 1 (2025-2026)** seeks to leverage work underway to improve the efficiency of the consent system by establishing an improved legislative framework for building research levy funding and the principles guiding a revised levy operating model.
  - b. **Phase 2 (Confidential)** seeks to establish the details of the revised operating model. Phase 2 will be subject to further decision and policy design, and will take place after policy decisions for Phase 1 are taken.

*Wider science system reforms*

73. The Minister for Science, Innovation and Technology is progressing reforms to modernise New Zealand’s science system, with a focus on economic growth. This includes restructuring Crown Research Institutes into three new Public Research Organisations (PROs).
74. These reforms aim to improve innovation, responsiveness, and outcome delivery across the science sector. While government-funded science is generally treated as a public-good expense, MBIE considers a sector-specific levy to remain the most appropriate funding model for building research, given the sector’s unique needs driven by fragmentation and low productivity.
75. MBIE has assessed the fit of building research within the new PROs and found no suitable alignment. The reforms are too advanced to accommodate changes to this structure. Confidential advice to government

[Redacted text block]

*The triennial building levy review is currently underway*

76. The Building Act 2004 requires the Chief Executive of MBIE to review the building levy every three years. This involves ensuring that the levy threshold, rate and investment of the levy in MBIE’s services meets the needs of the sector and is appropriate in the current circumstances.
77. This cycle of the levy review timing does not align with the review of the building research levy however MBIE has established frequent communications between the teams undertaking both reviews.

**What options are being considered?**

Status quo - Building Research Levy Act 1969 remains authorizing legislation for collecting levy, and paying for building research (Counterfactual)

78. Option 1 maintains the status quo with no amendments to the Building Research Levy Act 1969. BRANZ retains its position as sole recipient of the building research levy, and maintains full autonomy over the way the levy is allocated. The same provisions for government oversight, transparency, contestability, and alignment with broader sector needs would continue
79. The dual levy system (comprising the building research levy and the building levy) continues to operate in parallel, with Building Consent Authorities (BCAs) responsible for collecting and distributing both.

Update the Building Research Levy Act 1969 to increase transparency and accountability and retain sector ownership

80. This option would impose targeted amendments to the Building Research Levy Act 1969 to include provisions for government oversight, contestability, transparency and accountability. Updating and modernizing the activities that the levy can be spent on is likely required in any option, as is providing for a three-year levy review to ensure appropriateness of rate and threshold.
81. In this option BRANZ remains the primary administrator of the research levy. It would retain functional control of all of the property and investment, retaining the scale and capability by which the organization undertakes research. Provisions for stronger oversight mechanisms, such as Ministerial reporting requirements, and a regular review cycle for the levy rate and threshold to ensure they remain fit for purpose would be included.
82. This option would require BRANZ to publicly consult on research decision making principles and approach and strengthen its financial reporting practices. This includes requiring for BRANZ to appear before select committee and incorporate government priorities as part of their strategy.
83. It would also provide for increased competition, and a mechanism by which this is managed independently of BRANZ.
84. The updated to the Building Research Levy Act would mean the research levy would remain with an independent incorporated society, and any future changes to legislation would need to consider how both the Building Research Levy Act and the Incorporated Societies Act intersect. There may be unidentified trade-offs that limit the impact of improvements under this option.

Combine the building research levy and the building levy under the Building Act 2004, ringfence for building research, and repeal the Building Research Levy Act 1969

85. The proposal integrates the building research levy into the building levy and increases the rate accordingly. The chief executive's functions would expand to include funding or commissioning building research.
86. This option reduces the number of levies from two to one. It also applies the existing requirements of building levy management to building research funding. This includes Parliamentary scrutiny through Select Committee, Ministerial oversight at arm's length, and a three-year review cycle with public consultation.
87. The Minister intends to ring-fence part of the combined levy to continue funding building research. Ring-fencing would occur through departmental spending allocations and changes to the chief executive's functions to include building research.
88. This option also creates a necessity to repeal the Building Research Levy Act 1969, as a consequence of the research funding provisions being brought into the Building Act.

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

	Option One - Status Quo	Option Two - Update the Building Research Levy Act	Option 3 - Combine levies
Efficiency	0	+	+
Responsiveness	0	+	++
Transparency	0	+	++
Accountability	0	+	++
Effectiveness	0	+	++
Overall assessment	0	5	9

## Analysis of Options

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*Option 2: Update the Building Research Levy Act*

### Efficiency:

89. The status quo's process of the building research levy and building levies being calculated differently and collected and distributed by BCAs to different recipients is an inefficient administrative burden on BCAs. We understand that some larger BCAs will have automated software to support this, and the impact may be less, however smaller BCAs may not have the same means and undertake a more manual levy calculation process. We have considered, and discounted, changing the levy distribution under the Act to go from BCAs to MBIE, because if BRANZ was to continue to maintain its research decision-making functions under the rewritten legislation, then any administrative efficiency gained by combining the levy collection would immediately be lost in MBIE adding a step of levy handling.
90. The other efficiency aspect that has been considered against status quo is the decision by which the rates and threshold is set for the research levy. In a rewritten Act, it could be provided for that a review must take place at regular intervals to be certain of the levy rate. Efficiency would be gained in that the levy would be set appropriately; however, it would require an additional research levy review, on top of the levy review that MBIE already undertakes which is a trade-off that undoes any efficiencies achieved in other areas.
91. The inefficiency that has arisen in the process through which the same group pays two levies in the same process will continue under this option and unable to be addressed without legislative reform.

92. Increasing competition and contestability creates a small risk to the efficient utilisation of research infrastructure which has been built through levy investment.

### **Responsiveness:**

93. In rewriting the Act, there is the opportunity to include a requirement for regular reviews and Ministerial oversight. This would put legislative requirements in the Act and the administration of the levy to be more flexible and responsive to sector needs and government priorities.
94. There are some limitations to our understanding of how responsiveness to research projects currently is approached, outside of BRANZ setting aside \$100,000 per year for research projects that respond to emerging or urgent issues.
95. We currently understand that BRANZ uses the BRAC to engage with the sector, which we consider to be a limited public consultation mechanism. By incorporating a statutory requirement to consult publicly and incorporate the feedback into research priorities, the legislation and the administration of the levy would be more responsive to the sector.

### **Transparency:**

96. Provisions for enhanced transparency could be drafted into the rewritten legislation. This could include actions such as enhanced reporting to clearly set out levy expenditure in more detail than currently presented. It could also set out that the sector must be involved in setting research priorities through public consultation, as set out in the responsiveness section above.
97. Transparency could also be enhanced through including the requirement for BRANZ to address Select Committee (similar to other research organisations who receive public funding). Incorporated societies are not often subject to Parliamentary scrutiny and it is likely that in practise BRANZ would require support from MBIE to participate in this process
98. The changes to the Incorporated Societies Act has enhanced and clarified the financial reporting requirements on large incorporated societies, among other amendments. The timing of BRANZ's reregistration under the new Act and the timing of the most recent annual report were not aligned so it is unclear how the changes will impact the way BRANZ produces or publishes its annual reporting. The changes to the Act did not extend to enhancing transparency requirements.
99. Option 2 goes some way to addressing the modernisation requirements, however, the drawback of this option is that the research levy would still be, in effect, independently managed by a non-Crown organisation. This means that there are limitations to level of transparency that can be achieved, and we are unclear if option 2 would meet expectations of the sector and government.

### **Accountability**

100. Similar to the transparency analysis, there are several areas where additional accountability provisions could be included in the rewritten legislation. We think that providing for a regular review cycle with public consultation is a key way of adding accountability to the Act, however as

set out in the efficiency section (para 77-79) it would create a duplicative review role that would require trade-offs.

101. Under this option, BRANZ decision making accountability would be split between their responsibility to their members under the Incorporated Societies Act and its Charter, and the Minister and levy payers through the Building Research Levy Act. Due to increased requirements placed on BRANZ, this would likely contribute to slightly higher operational and legislative administration than the status quo.

### **Effectiveness**

102. We currently don't have a good understanding of the process that goes into how the status quo reaches its levy allocation decisions, outside of the groups that are assembled. Because of this we would be unable to ascertain whether the best, most suitable, research is being produced to meet sector needs, and how the sector needs are specifically accounted for in these decision-making processes.
103. Option 2 goes some way to enhancing this through requiring public consultation, with greater transparency on this process ensuring the right research is undertaken to meet those disclosed needs. It represents better responsiveness to the sector than the status quo, but this option does not necessarily make the system more responsive to government priorities, and building owners and users.

*Option 3 - Combine building research levy with building levy (Minister's preferred)*

### **Efficiency:**

104. Through streamlining the levy collection and distribution, efficiency is enhanced in contrast to the status quo and to option 2. This is through rectifying the situation where two levies are imposed on the same group.
105. This would streamline not only the charging but also the collecting and distributing of the levy, as the BCA would only be required to collect one levy and distribute it.
106. Changing the levy collection and distribution, and increasing competition and contestability creates a small risk to the efficient utilisation of research infrastructure which has been built through levy investment. Phase 2 will be designed to be as efficient a system overall as possible, including with consideration to the use of levy-funded research facilities.
107. Further to streamlining the collection process, a levy review would ensure that the levy rate and threshold is appropriate to undertake the requisite functions under the Act including building research.
108. This approach supports the government's goal to reduce duplication and improve regulatory efficiency. Consolidating levy collection and administration within the building levy framework removes the need for BCAs to manage two separate levies, easing their administrative burden.
109. This option proposes delegating decision-making to a group that is representative of the sector, research and government to ensure the research that is funded will deliver on the objectives outlined above.

### **Responsiveness:**



110. Regular reviews through the building levy, and Ministerial oversight **Confidential** would enhance the research levy's responsiveness to the government priorities, and by proxy a wider group of beneficiaries. This includes the sector and building owners and users. The priorities will underpin the way decisions are made. We expect Ministerial oversight and sector input will form these. We acknowledge that the sector and government are not always in agreement on sector priorities, and trade-offs would need to be made. This currently happens under the administration of the building levy already.
111. Delegating research funding decisions to an independent board will allow for arms-length decision-making from government, giving the sector confidence that the make-up of the board will alleviate any concerns that the shift in levy collection may raise. The Minister is mindful that the industry should maintain oversight, input, representatives play an advisory role on research outcomes through decisions on the research funded.
112. Aligning the research levy and building levies also streamlines the type of research conducted to support regulatory and sector needs.

#### **Transparency:**

113. The building levy, and the building regulatory system it funds, is subject to the current transparency settings placed on public sector organisations through the Public Finance Act. Combining the two levies would mean that this is automatically enhanced for decisions around funding of building research, and improved against the status quo.
114. The Building Act, and MBIE are named entities that are subject to the Official Information Act requirements and regularly receive requests seeking information that informed decisions, or other pieces of official information. In contrast, there is no mechanism that places any requirement on BRANZ to share information that supported its research or levy-investment decision-making.

#### **Accountability:**

115. Public consultation through the building levy review allows for accountability mechanisms to be placed on the funding ring-fenced for research, as well as the strategic direction of research. Being accountable to levy payers is one of the key pillars of levy setting and administering. The Commodities Levies Act sets out that a levy must be reviewed every 6 years to ensure it is still suitable to exist. We are not proposing this with the research levy as we consider research to be instrumental to improving the practices and productivity of the building sector.
116. Additional Ministerial accountability as responsible Minister for the Building Act through financial statements, Estimates hearings and parliamentary scrutiny.

#### **Effectiveness**

117. Effectiveness is enhanced through this option through the contestable funding mechanism, and through increasing the responsiveness to government priorities. Contestable funding contributes to better effectiveness and better research outcomes by increasing the range of research providers. It supports a better cross section, and reduced

duplication, of research, as well as increasing innovation through a range of different providers with different disciplinary backgrounds and methodologies.

118. Option 3 represents better government and – by proxy – public responsiveness as the government supports building owners and users. In comparison, the Incorporated Society status of BRANZ Inc puts their membership central to their responsiveness and accountability functions despite the mechanisms set up to receive sector input.
119. The shift to option 3 gives an enhanced level of oversight into the way the new system is working and provides the pathway to make changes to research decisions, levy amount and other factors based on assessment of performance overall through the building levy review and other mechanisms.
120. There is a risk that through being more responsive the system doesn't give enough longer term certainty on research priorities. This may impact the level of investment put into research infrastructure in future. For example, certainty has allowed BRANZ to invest in important research facilities and there is a risk that taking it away means that considerations need to be made to future proof this in the wider science.
121. Option 3 has the potential to increase effectiveness of the system as a result of the other criterion. The tradeoff is that there is value in the status quo (scale, current investments etc). Therefore the change does put at risk some of the value which risks effectiveness, but this is to be addressed through Phase 2 detailed design.

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

122. We consider that Option 3 is expected to provide the best legislative framework for effective building research levy funding that delivers improved efficiency, transparency, accountability and responsiveness. Option 2 provides for an improvement on the status quo and goes some way to achieving the objectives set out however, the main drawback would still be that the research levy would continue to be managed by BRANZ as sole recipient, with limited government oversight despite an increase in transparency mechanisms.
123. The current arrangement offers scale, and capability and institutional knowledge that is valuable to the sector, but the legislative arrangements are not fit for purpose.
124. Option 3 as a preferred option will achieve the following outcomes:
  - a. Secures a future for levy funding to continue to support building research in New Zealand.
  - b. Streamlines levy management by combining the building and research levies under the Building Act, ensuring consistent transparency and accountability across all functions funded by the levy.
  - c. Secures ongoing investment in building research through ring-fenced funding, while enabling more efficiency through the building levy review ensuring the rate and threshold are set at appropriate levels.

- d. Strengthens research governance by appointing a representative decision making body as the lead decision-maker, ensuring research priorities reflect Ministerial and sector direction while maintaining an arms-length relationship with government.
  - e. Clarifies BRANZ role in the system, and supports continuity in sector expertise, as well as establishing an approach to contestable research funding.
125. Key trade-offs include that the increased administration costs for MBIE in supporting the research decision making body will be offset by the increased transparency, accountability and rigour being applied to the building research system. We also anticipate that there will be uncertainty for BRANZ immediately following decisions, and during the Phase 2 implementation/operational design stages, however we believe that this can be managed through Confidential advice to [REDACTED], and ring-fenced funding for building research.
126. We have also considered the impact on the efficient use of levy-funded assets and infrastructure, noting that contestable funding may lead to underutilisation if research is directed elsewhere. Transitional arrangements will take this into account in Phase 2.

Key assumptions:

127. We currently do not have the requisite information to assess the efficiency of BRANZ's management of the levy however because we know that the Act has not been reviewed since it came into force and the levy rate has only been adjusted once, we feel that our assumption that any enhancement to efficiency would net better results than the status quo is justified. The building levy review will be the mechanism to consult on and set the levy threshold and rate, these details are yet to be worked through and will inform operational design in Phase 2.
128. The implementation (Phase 2 decisions) of Option 3 require that we design an operational system that is efficient and does not place undue administrative burden on any one single party. This work cannot start without clear direction from Cabinet, and as such the stated efficiency improvements via options 2 and 3 are assumed and will be proven through further policy design and decisions.

**Is the Minister's preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?**

129. Yes, both the Minister and MBIE prefer option 3.

**What are the marginal costs and benefits of the preferred option in the Cabinet paper?**

Affected groups (identify)	Comment	Impact	Evidence Certainty
<b>Additional costs of the preferred option compared to taking no action</b>			
Regulated groups (eg BRANZ)	Adjustment costs to new way of working, change in the way it receives funding, potential increase in professional services costs to meet reporting obligations, perceived loss independence, costs of maintaining research facilities, institutional knowledge and expertise built up over years.	High	High
MBIE	MBIE will likely have higher resource demands on teams who manage increased funding intake, and administrative set up costs initially, small additional monitoring & reporting requirement costs. Confidential advice to government reduction in total levy take through increased threshold. Combined levy subject to GST.	Medium	High
Councils	Low initial administrative set up costs to change the way the levy is collected and distributed, Reduction in percentage able to be retained to cover services through combining levies Confidential advice to government	Medium	High
New Zealand research sector	May be increased costs in adjusting to the new system.	Low	Low
Building owners	Building owners may see perceived higher costs due to combined levy being charged directly to them but in reality this is what they are likely paying anyway.	Low	Low
Builders	Potential non-monetised cost of losing a sense of ownership over a sector levy.	Low	Medium
<b>Total monetised costs</b>	Limited monetised data available, contingent on implementation design		
<b>Non-monetised costs</b>	Adjustment of work programme to new method of reporting and competing for funding	High	High
<b>Additional benefits of the preferred option compared to taking no action</b>			
Regulated groups (eg	Clarified legislation and approach to research, ability to focus on undertaking	Low	Medium

Affected groups ( <i>identify</i> )	Comment	Impact	Evidence Certainty
BRANZ)	pure research, stronger relationship with government, better sector satisfaction with research outcomes, explicit support to continue operating.		
Wider govt	Legislative efficiency achieved through reduction in legislation Proposed alignment with science system reforms achieves cross-government efficiency		
MBIE	Better oversight into direction of building research, and expenditure of levy. Better ability to horizon scan to manage risks in research gaps. Legislation misalignment resolved. Better alignment with regulatory system to support emerging issues, sector trend monitoring (S169)	High	High
Councils	Councils will only need to collect and distribute one recipient as opposed to two.		
New Zealand research sector	Better oversight into direction of building research, more involvement in building research, increased opportunity to access research levy funding, more consultation on levy-related settings, proposed approach allows for consistency for applicants	High	High
Building owners/ levy payers	Potential \$65 saving per consent through threshold adjustment. Targeted research benefiting the needs of building owners as a group. Enhanced consultative role in levy settings		
Builders and sector	Enhanced consultation role in levy settings, retain some benefits of building research with no obligation to pay a levy		
<b>Total monetised benefits</b>	Limited monetised data available		
<b>Non-monetised benefits</b>	High		

Affected groups (identify)	Comment	Impact	Evidence Certainty
Affected groups (identify)	<b>Comment</b> <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i>	<b>Impact</b> <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i>	<b>Evidence Certainty</b> <i>High, medium, or low, and explain reasoning in comment column.</i>

130. There are non-monetised costs and benefits associated with the Option 3. Over the last 50+ years with BRANZ being the sole recipient of the levy it has dedicated resources entirely to building research. Significant expertise and institutional knowledge has been developed through BRANZ role as sole recipient and administrator of the research levy. With the redirection of funding through MBIE/an entity charged with making research decisions, BRANZ will see a reduction in levy funding. **Confidential advice to government**

131. In the short-term we expect there to be disruption to the way BRANZ operates. We don't have good information to inform the impact of this however we assume that through the redirection of funding BRANZ will require transitional support. MBIE will work with BRANZ to ensure the impact of the change in arrangement is managed and as smooth as possible, while enabling BRANZ to adapt to the new structure.

132. Under the status quo BRANZ has built up significant scale to support building research. It is important that this is retained and the future-state provides for this expertise to be retained. Further implementation decisions will factor this in, including how transitional arrangements are set.

133. The research levy is currently GST-exempt, however due to changes to the *Taxation (Annual Rates for 2022-2023, Platform Economy, and Remedial Matters) Act 2023* the levy was due to become subject to GST on 1 July 2026. This is not a cost associated with the changes analysed in this RIA, however it will require MBIE to model this when the levy rate is set in future. The building levy is already subject to GST and is costed as such.

### Section 3: Delivering an option

## How will the proposal be implemented?

134. As set out previously, the reforms for building research will take place across two phases.
- a. **Phase 1 (2025-2026)** seeks to leverage work underway to improve the efficiency of the consent system by establishing an improved legislative framework for building research levy funding and the principles guiding a revised levy operating model and incorporates the transitional period prior to the future-state implementation.
  - b. **Phase 2 (2026-9(2)(f))** seeks to establish the details of the revised operating model. Phase 2 will be subject to further decision and policy design and will take place after policy decisions for Phase 1 are taken.
135. The Minister's preferred option of combining the building research and building levies will be passed through the Building Act Amendment Bill, with a consequential amendment bill to repeal the Building Research Levy Act 1969, prior to the general election in 2026.
136. Following Royal Assent of the Bill, the transitional period will take effect. MBIE will be the sole recipient of the combined levies and BRANZ will no longer receive the building research levy directly and will require ongoing financial support as Phase 2 design is underway.
137. The Phase 1 decisions, as set out in this RIS, involve setting out the legislative approach to change, including providing for the new Chief Executive function of building sector-related research, combined levy provisions, and a section that sets out that a ring-fenced portion of the levy will be available for building sector-related research. The legislative decisions also set out the principle that overarching research decision making is informed by an appropriate balance of sector, research and government input.
138. MBIE has taken the phased approach because of the timing opportunity presented by the Building Act Amendment Bill. The phased approach, **Conf** means that there is more opportunity for MBIE to work through the detailed operational design in Phase 2.

### *Phase 2 will set out the new operating model*

139. The Minister has expressed that implementation is not something he wants to rush. This involves the above-mentioned transitional arrangements to support BRANZ to continue operating until the new funding allocation model fully comes into effect.
140. When the bill passes in 2026, the new combined levy rate and collection arrangements would come into effect, and under the expanded CE functions MBIE CE will allocate transitional funding to BRANZ based on current levels received through the research levy. Phase 2 involves decisions to design a new system that takes into account the following considerations:
- a. Setting out a future of BRANZ in the new operating model
  - b. Ensuring that BRANZ was able to be given time to adapt to the new model, and be consulted on the design of it
  - c. Establish the regulations to give effect to ring-fencing funding for building research

- d. Expand the building levy review functions to include building research
  - e. Develop a public consultation plan to ensure levy payers are involved in the design of the system.
141. Paragraphs 73-75 set out that outside of this work programme there is a significant reform of the science funding system underway, managed by MBIE. MBIE invests in science on behalf of the government through a variety of funds and Crown Entities. Confidential advice to government [redacted]. In the past criticism of the system has been that it can be too complex and takes time and energy away from actual research.
142. Confidential advice to government [redacted]
143. Due to timing constraints outlined in the limitations section of this RIS we have been unable to in detail design an implementation plan. Phase 2 planning will begin in tandem with drafting instructions for Phase 1, following Cabinet decisions.

**How will the proposal be monitored, evaluated, and reviewed?**

144. As set out above the phased approach will see changes made to the legislation first, and implementation decisions taken during the transitional period. This will allow the opportunity to work with BRANZ and the sector to adapt to the new operating model.
145. The current provisions for reporting and transparency in the Building Act will be the first method of monitoring and evaluating. By incorporating the research levy with the building levy the current monitoring and evaluation provisions in place will apply.
146. Monitoring the effectiveness of the levy rate and threshold will be undertaken through the three yearly building levy review cycle. Additional review will include measuring effectiveness of the new system.
147. There will be a requirement to collect additional data through the public consultation step of the building levy review, as we will be seeking input from levy payers on research direction and areas of focus.
148. Confidential advice to government [redacted]
149. In terms of the scope, monitoring the impact of research will be planned in phase 2. This will include a plan to understand in detail the impact of research investment on the sector. Confidential advice to government [redacted]