

GOVERNMENT

PRESCRIPTION FOR PROSPERITY 2026

Briefing to the Incoming Government



**THE
NEW ZEALAND
INITIATIVE**

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About The New Zealand Initiative

The New Zealand Initiative is an independent public policy think tank supported by chief executives of New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We are developing and contributing bold ideas that will have a profound, positive and long-term impact.

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Introduction

This is The New Zealand Initiative's 2026 *Prescription for Prosperity*. Since 2017, the Initiative has prepared a briefing for the incoming government. This fourth edition is addressed to whichever government New Zealanders elect in November.

Our 2023 *Prescription* made 170 recommendations across 23 chapters. This one makes 235 across 26. That growth reflects not a fondness for lists but the accumulation of unfinished business. Many of the problems we identified three years ago remain unsolved. Some have worsened. A few new ones have arrived uninvited.

The Luxon-led coalition government deserves credit where it is due. It liberalised overseas investment, made crucial reforms to school education, re-established the social investment framework, repealed 'fair pay' agreements, passed the Regulatory Standards Act and began the long-overdue replacement of the Resource Management Act. These were genuine advances, and the relevant chapters acknowledge them.

But structural reform has proved harder than anticipated. New Zealand's planning system still makes housing unaffordable and infrastructure projects slow and costly. Government spending has continued to grow, a return to surplus remains elusive, and debt has ballooned. Local government still lacks the fiscal tools and incentives to accommodate growth. The public service remains too large, too diffuse and too weakly accountable to elected ministers. Health funding models have not kept pace with the complexity of primary care.

And then there is the world beyond our borders. When we published the 2023 *Prescription*, the

rules-based international order was already fraying. It has since torn further. The conflict in the Middle East and the closing of the Strait of Hormuz have delivered a fuel price shock that no amount of domestic policy can fully absorb. New Zealand's defence posture, long neglected, now requires investment on a scale that will compete with every other spending priority. The chapters on trade, defence, geopolitics and energy reflect a harsher external environment than the one we wrote about in 2023.

Each chapter in this document draws on the Initiative's published research: reports, submissions, working papers and policy commentaries built up over more than a decade. Where we have not published on a topic, we say so. Where we extend established principles to new problems, we make that clear. *Prescription for Prosperity* is not a wish list. It is a compilation of evidence-based policy recommendations, grounded in research, that we believe would materially improve New Zealand's economic performance and institutional quality.

The document is organised thematically. The opening chapters cover the fiscal and monetary framework. These are followed by chapters on trade, defence and geopolitics, energy, transport, infrastructure funding and regulation, and artificial intelligence. Then comes constitutional and electoral issues, the public service and local government. The middle chapters address education, health, housing, immigration and social development followed by resource management, climate change, and freshwater. The final chapters cover regulation, overseas investment, workplace relations and safety, digital policy, the primary sector, emergency management and lifestyle regulation.

An important note on timing. The content in this document was finalised on 8 May 2026. Developments since that date have not been captured.

No single recommendation will transform New Zealand. But the cumulative effect of implementing even half of what is proposed here would be substantial. New Zealand's problems are not mysterious. Housing is expensive because planning rules restrict supply. Infrastructure is underfunded because councils bear costs while central government captures revenue. Productivity growth has stalled because regulatory barriers discourage investment and innovation. These are policy failures, not acts of nature. They can be reversed by governments willing to do the work.

That is what this document asks of the next government. Not ambition in the abstract, but the sustained, unglamorous effort of getting incentives, institutions and legislation right. New Zealand has done it before. It can do it again.

Dr Oliver Hartwich

Executive Director

The New Zealand Initiative

ECONOMIC POLICY

CHAPTER 1

Fiscal Policy

Profligate fiscal policy destabilises an economy. When governments borrow beyond their means, future taxpayers inherit the burden. When operational spending grows faster than revenue, a public debt spiral may emerge as resources flow to programmes of little value. When fiscal rules lack credibility, markets and citizens lose confidence in the state's capacity to manage its affairs. That is why the Public Finance Act requires each government to determine a prudent level for the public debt to be transparent about what it will do to correct a situation in which the debt exceeds that level.

New Zealand has run an operating deficit in every fiscal year since 2019/20. Treasury's December 2025 Half Year Economic and Fiscal Update projects that the operating deficit will reach \$13.9 billion in 2025/26, with net core Crown debt peaking at 46.9 percent of GDP in 2027/28.¹ The return to surplus, forecast for 2028/29 just seven months earlier, has slipped to 2029/30.² Two-thirds of this deficit is structural – it will not resolve as the economy recovers.³ Treasury's 2025 Long-Term Fiscal Statement projects government debt reaching 200 percent of GDP by 2065 on current policy settings.⁴

Policy will have to change, if only because the government will have difficulty convincing investors to lend it that much money. There is also risk that the Public Finance Act's restrictions will come to be seen as having no practical effect. Like the age of eligibility for superannuation, these problems should have been dealt with twenty years ago. The longer the day of reckoning is delayed, the more difficult it will be.

The Luxon government cut spending growth, although not spending itself. It has delivered limited tax relief, wound down several wasteful

programmes, and resisted pressure to introduce new broad-based taxes. But the fundamental drivers of fiscal unsustainability remain untouched. The government is still aiming for a surplus in 2028/29; but Treasury's December 2025 forecast was for a small deficit.⁵

Cutting spending growth

Core Crown operating spending rose from 27.3 to 33.1 percent of GDP between the years June 2018 and June 2024. For the year ended June 2026, the Treasury's December 2025 update forecast that it would be down to 32.8 percent of GDP, despite the heavier burden of interest payments on the larger public debt. That represents much reduced spending growth following the 2023 general election – but spending as a percent of GDP remains significantly higher than in 2018. More needs to be done.

Avoiding new taxes

The 2023 *Prescription for Prosperity* recommended that the incoming government avoid increasing or introducing new sources of tax revenue without first thoroughly reviewing spending quality. The Luxon government has largely followed this recommendation.

Tax relief delivered

The 2024 Budget adjusted personal income tax thresholds for the first time in fourteen years. The lowest threshold increased from \$14,000 to \$15,600, with corresponding adjustments through the tax brackets.⁶ The independent earner tax credit was extended to incomes up to \$70,000, and in-work and FamilyBoost tax credits were expanded.⁷

The 2025 Budget introduced “Investment Boost,” a 20 percent accelerated depreciation deduction for new business assets.⁸ This measure applies to all new depreciable assets, including commercial and industrial buildings that previously attracted a zero percent depreciation rate. The reform lowers the effective cost of capital and encourages greater business investment. However, it also inefficiently biases investment decisions in favour of longer-life assets.

New taxes rejected

The Luxon government actively removed a proposed new tax from its legislative agenda. The Digital Services Tax Bill, introduced by the Ardern government in 2023, proposed a three percent tax on the gross digital services revenue of large multinationals.⁹ In May 2025, Revenue Minister Simon Watts discharged the Bill, preferring a multilateral approach through the OECD.¹⁰

The Luxon government also reversed the Ardern government’s extension of the bright-line test, returning it to a two-year period from July 2024.¹¹ It has not implemented wealth taxes or comprehensive capital gains taxes. This is consistent with the Initiative’s 2020 analysis in *Roadmap for Recovery* that such taxes raise serious practical problems including capital flight, avoidance, unfairness and economic distortion.¹²

Enhanced funding for Inland Revenue compliance in Budgets 2024 and 2025 demonstrates an alternative approach to revenue. The government forecasts this investment will recover an additional \$1.5 billion over time, with Budget 2025 projecting an 8:1 fiscal return on the government’s costs,¹³ excluding taxpayer compliance and audit costs.

The tax collection problem

Inland Revenue’s capacity to enforce taxpayer obligations is compromised by structural weaknesses in New Zealand’s company law. In 2023/24, Inland Revenue wrote off \$694.5 million in tax debt, much of it from companies struck

off the register when enforcement had become prohibitively expensive.¹⁴ In the 2025 tax year, businesses collected almost \$1.5 billion more in GST and PAYE than they remitted to the Crown.¹⁵

A failing company continues to accumulate GST and PAYE debts. When the debt becomes unmanageable, directors can walk away from the company, leaving nothing for creditors. Then they can start a new company doing the same thing. This ‘phoenix’ activity represents a direct transfer from compliant taxpayers to those who exploit the system.

Current enforcement mechanisms engage only when tax debts have accumulated to unrecoverable levels. By then, companies typically have no assets remaining. Inland Revenue has preferential access to assets when companies go bust, but there are rarely any assets left to claim. Anti-phoenix provisions exist but are easily circumvented by choosing a different company name. Director liability rules look tough on paper but require expensive litigation that is rarely worth pursuing in no-asset cases.

Responsibility Before Ruin (2025) proposes a pre-emptive framework modelled on Germany’s approach.¹⁶ Directors would face a statutory duty to act within 30 to 90 days of a GST or PAYE default – either remedying the default or initiating formal insolvency proceedings. Directors who respond appropriately are protected by a safe harbour. The system only engages when directors fail to act. This approach prevents companies from accumulating unrecoverable debts while maintaining fairness to directors who manage financial distress responsibly.

The timing problem

The 2024 tax cuts were enacted before the Luxon government achieved substantive spending discipline. The \$3.7 billion tax relief package provided fiscal stimulus at the same time as the Reserve Bank of New Zealand (RBNZ) was tightening monetary policy to control inflation.¹⁷

This timing mismatch may have induced the RBNZ to maintain high interest rates than would otherwise have been necessary.¹⁸ The 2023 *Prescription for Prosperity*'s recommendation to avoid new taxes was conditional on *thoroughly reviewing spending quality*. Tax cuts funded by borrowing during an inflation crisis, rather than by prior spending restraint, create monetary policy conflicts that undermine their benefits to taxpayers.

The capital gains tax and wealth tax debates

In October 2025, the Labour Party announced it would take a new capital gains tax (CGT) to the 2026 election.¹⁹ The proposed tax would apply only to residential and commercial investment property, except family homes and farms. It would apply and set a flat rate of 28 percent on nominal gains calculated from 1 July 2027. Selling at a capital loss would only provide a credit against any future realised gains – it could not, for example, offset income tax liability. The revenue, forecast at \$700 million annually, would be ringfenced to fund three free doctor visits per year.²⁰

A tax on investment properties, but not on owner-occupied ones, would distort the tax system against renters. The tax would be payable only when investors sell, and the tax itself would make them less inclined to do so. The asymmetric treatment of losses and gains noted above would compound this problem.

The revenue raised by Labour's proposed CGT would do little to ameliorate New Zealand's structural fiscal challenge. Treasury's 2025 Long-term Fiscal Statement shows that stabilising debt through tax alone would require increasing the average income tax rate from 21 percent to 32 percent or raising GST to 32 percent.²¹ A CGT raising \$700 million annually would not materially change this equation – especially when used to increase spending.

As the Initiative observed in *Roadmap for Recovery*, wealth taxes and CGTs raise significant

practical problems, including administrative complexity, capital flight, avoidance behaviour. All of these can result in revenue yields below projections.²² The Green Party's 2025 wealth tax proposal, projecting \$72.5 billion over four years, relies on assumptions that Treasury warned carry "high risk of unforeseen issues and unintended consequences".²³

Recent experience in California illustrates the risk. Representative Ro Khanna suggested a ballot initiative that would tax wealth, including unrealised capital gains. But the proposal had not even made it onto the ballot before many technology entrepreneurs fled California, taking their wealth with them. And California loses substantial state-level income tax revenue.

Better alternatives

Rejecting new broad-based taxes does not preclude fiscal reform. The Initiative has long advocated replacing inefficient taxes with well-designed user charges. *The Price is Right* (2019) made the case for replacing fuel excise with comprehensive road user charges and congestion pricing based on distance, vehicle type, time and location.²⁴ Such charges price externalities and fund infrastructure without the distortionary effects of broad-based taxation. Policy is now moving in this direction.

Reforming retirement income policy

Improving value-for-money in New Zealand's retirement income policy remains the single greatest opportunity for achieving significant long-term fiscal savings, without adversely affecting frontline public services.

The December 2025 Half Year Economic and Fiscal Update (HYEFU) shows the scale of the challenge with uncomfortable clarity. New Zealand Superannuation (NZS) liability reached \$8.6 billion in 2024/25 – more than housing and education spending combined.²⁵

The number of recipients will rise from 928,000 this year to 1.1 million over the forecast period to 2029/30.²⁶ Benefit expenses, particularly NZS, are now projected over \$1.0 billion higher per annum from 2026/27 than previously forecast.²⁷ By the end of the forecast period, increased benefit expenses will be the main driver of the fiscal deterioration.²⁸

Treasury's 2025 Long-term Fiscal Statement projects the worker-to-pensioner ratio reaching 2:1 by 2065.²⁹ New Zealand's ratio has already fallen from 7:1 in the 1960s and continues to decline as the population ages. This trajectory mirrors that of almost all other developed economies, with Germany's experience, where the ratio collapsing from 6:1 to 2:1 over recent decades.³⁰

KiwiSaver subsidies reduced

Budget 2025 significantly reformed government subsidies to KiwiSaver.³¹ From 1 July 2025, the government's contribution rate dropped from 50 cents to 25 cents for every dollar contributed, halving the maximum annual payment from \$521 to \$261. Eligibility was removed for those earning above \$180,000, addressing the 2023 critique that the subsidies were poorly targeted.

The Retirement Commission assessed these changes positively, estimating they will save \$2.4 billion over four years while improving retirement outcomes.³² The simultaneous increase in default contribution rates from 3 to 4 percent, phased in by April 2028, will more than offset the reduced government subsidy for most savers.

However, eligibility for the government contribution was simultaneously extended to 16- and 17-year-olds.³³ This partially negates the fiscal consolidation achieved through the rate reduction.

The public policy case for paying taxpayer money to individuals for saving in their own retirement accounts is unclear. The subsidy is smaller and better targeted following the 2025 reforms, but the logic of the scheme remains just as dubious.

There have also been increasing calls to require KiwiSaver funds to invest in New Zealand assets. This would be a mistake. Standard portfolio theory argues for diversification. KiwiSaver was established based on behavioural economics arguments that people will err in making decisions about retirement and that the state should 'nudge' them toward better decisions. Nudging them into portfolio allocation decisions that run contrary to basic principles of finance risks doing harm.

Superannuation age unchanged

The Luxon government has explicitly rejected any near-term increase to the age of eligibility for NZS. National's pre-election "Commitments to Seniors" policy stated that the superannuation age will remain at 65 until 2044, with gradual increases to 67 beginning only thereafter.³⁴

National's policy ensures that no one born before 1979 will be affected by any change. None of the projected savings will materialise within the timeframe relevant to current debt trajectories. This arrangement insulates older voters from any adjustment and shifts the burden to younger cohorts already facing higher housing costs and diminished prospects of homeownership.

Embracing a Super Model (2018) proposed the more durable approach of linking the pension age to health-adjusted life expectancy.³⁵ This would maintain a relevant connection between retirement and pension receipt as longevity increases, without requiring repeated political decisions about specific age thresholds. The mechanism is self-adjusting: as life expectancy rises, so does the eligibility age.

The same report recommended indexing NZS payments to the Consumer Price Index rather than to the net average wage, which is the current arrangement.³⁶ This would maintain the real purchasing power of the pension while enabling productivity gains to reduce the costs of NZS over time. Finally, a transitional

health-tested benefit for those over the age of 65 but no longer medically fit for work could provide better-targeted assistance.

Superannuation Fund contributions diverted

The 2023 *Prescription for Prosperity*'s recommendation called for suspending contributions to the New Zealand Superannuation Fund or winding it up early and using the proceeds to repay government debt.

Budget 2025 shows that the \$61 million capital contribution required for 2025/26 under the legislated formula was not paid to the NZSF. Instead, it was diverted to the Elevate NZ Venture Fund.³⁷ This one-year suspension did not achieve the necessary fiscal discipline. The Crown continues to borrow to invest and has simply redirected the money from a passive global fund to an active domestic venture capital fund.

In January 2025 the Initiative observed that New Zealand is “asset-rich but service-poor”, with total Crown assets of \$571 billion but crumbling infrastructure and a \$210 billion infrastructure deficit.³⁸ The NZSF, valued at approximately \$79 billion, represents capital tied up in passive global investments that, if liquidated, could be used to address domestic infrastructure and debt.

The incoming government should either commit to resuming contributions to the Fund when fiscal conditions permit, or wind it up and use the proceeds to repay debt and address infrastructure needs prioritised by the New Zealand Infrastructure Commission (NZIC). If it maintains the Fund, it should amend the New Zealand Superannuation and Retirement Income Act 2001 to confirm that the Guardians' overriding duty is to maximise the long-term value of the Fund's investments, and to remove the duty to ‘avoid prejudice to New Zealand's reputation as a responsible member of the world community’ on which the High Court relied in its April 2026 decision.³⁹

Controlling expenditure

The 2023 *Prescription for Prosperity* recommended a comprehensive expenditure review to identify and eliminate low-quality spending. It highlighted KiwiBuild, the Fees Free tertiary education scheme, the Provincial Growth Fund and interest-free student loans as programmes warranting scrutiny.

The Luxon government has abolished or rationalised some of these specific programmes – most recently announcing the end of Fees Free.⁴⁰ It has not, however, established the systematic review of spending the Initiative recommended.

The Luxon government's approach to expenditure control has been tactical rather than systematic. Treasury's “Grants and Funds Deep Dive Stocktake” for Budget 2025 identified approximately \$21 billion in grants and funds spending over the forecast period, with estimated savings options ranging from \$1.3 billion to \$4.1 billion.⁴¹

This stocktake was a preliminary assessment based on agency self-reporting, using criteria that mix economic analysis (“Value for Money”) with political considerations (“Alignment with Government Priorities”).⁴² A programme could fail a rigorous cost-benefit test but be rated favourably for its alignment with coalition priorities.

The Budget Policy Statement 2026 confirmed the government will maintain its \$2.4 billion operating allowance, with funding focused on health (including \$1.3 billion for Health NZ), education, defence and law and order.⁴³ Finance Minister Willis has emphasised that “tight control of spending has to continue”.⁴⁴

This discipline, while welcome, addresses only one third of the problem. The remaining two-thirds comprises the structural deficit – that part of the deficit that will not resolve as the economy

recovers.⁴⁵ Correcting this would require stronger action to further limit expenditure growth, particularly on health, education, and social welfare (including NZ Superannuation), which together comprise the vast majority of government spending.

Institutionalising fiscal discipline

The 2023 *Prescription for Prosperity* recommended establishing an independent fiscal council to strengthen fiscal rules through public monitoring and reporting. The government has taken only preliminary steps towards this.

In 2024, Treasury was tasked by the Minister of Finance to provide advice on establishing an independent fiscal institution with policy costing and fiscal scrutiny functions.⁴⁶

The Luxon government did not act on this advice. Under Budget 2025, the Government's fiscal sustainability work identified 116 operating savings initiatives, delivering about \$5.3 billion per annum in savings, reprioritisation and revenue-raising measures over the forecast period, but it also provided for new funding of \$6.7 billion per annum. In short, Budget 2026 maintained a substantial and ongoing structural deficit.⁴⁷

The Public Finance Amendment Act

The Public Finance Amendment Bill was introduced on Budget night 2025, to improve fiscal transparency and responsibility.⁴⁸

The Initiative submitted in support of the Bill, which passed and received Royal Assent in April 2026.⁴⁹ This legislation repealed mandated wellbeing reporting requirements from the Public Finance Act, including requirements for governments to articulate wellbeing objectives in Budget Policy Statements and Treasury's four-yearly wellbeing report. It addresses several fundamental problems with the wellbeing budgeting framework.

Treasury's primary role should be to provide rigorous economic and fiscal analysis. Diverting resources to subjective wellbeing measurement represented poor resource allocation and mission creep. Policies justified on wellbeing grounds frequently suffered from poor consideration of costs and benefits, trade-offs, and implementation. The inclusion of multiple wellbeing dimensions with no prioritisation or weighting enabled Ministers to justify almost any policy on the basis of 'wellbeing' measures that had improved, while ignoring any that had worsened. In contrast, cost-benefit analysis puts all measures on a common metric.

The Bill, which passed and received Royal Assent in April 2026, also enhanced fiscal risk disclosure and introduces mandatory tax expenditure statements. Tax expenditures – reductions in revenue through exemptions, allowances, and preferential rates – should be subject to the same scrutiny as direct spending. Regular publication of tax expenditure estimates will improve parliamentary and public understanding of the true fiscal impact of tax policy decisions.

The Bill did not fully address a significant weakness in New Zealand's fiscal reporting framework. Treasury must forecast the fiscal implications of government policies as they stand. If an announced policy has a termination date, Treasury must accept that date unless the Minister instructs otherwise. This creates a loophole allowing governments to obscure the long-term fiscal impact of their intentions by presenting ongoing commitments as temporary measures.

The problem is well illustrated by the repeated extensions of the Covid-19 wage subsidy, fuel tax relief, and transport subsidies from 2020 to 2023. Other examples include major cost overruns in infrastructure projects and previously underestimated liabilities such as pay equity settlements. As a result, the Crown's fiscal commitments are systematically understated and the credibility of its fiscal projections undermined.

The enhancement of specific fiscal risk disclosure under the Public Finance Amendment Act should help reduce fiscal surprises. But the legislation does not require likely extensions of temporary fiscal commitments to be costed. Nor does it mandate explicit disclosure of government intentions regarding such extensions. Unless the Minister of Finance explicitly advises Treasury of likely extensions, or Treasury proactively notes them as specific fiscal risks, there is no formal mechanism compelling disclosure.

To fully address this loophole, Treasury should include in its economic and fiscal updates estimates of the likely effect on fiscal outcomes if time-limited policies are extended. Parliament could also consider scenario-based forecasting, presenting the fiscal impact of extending time-limited policies, using historical analyses of the frequency with which similar temporary policies were extended.

The Act allows governments to use alternative fiscal indicators beyond those it specifies. While this recognises that fiscal management must adapt to changing circumstances, the flexibility it creates risks of political manipulation.

The Luxon government's use of the OBEGALx measure – the operating balance excluding gains, losses, and Accident Compensation Corporation (ACC) liabilities – illustrates the problem. The structural deficit on the traditional OBEGAL measure shows ongoing budget deficits beyond 2029. Yet OBEGALx indicates a return to surplus. Thus, OBEGALx enables the government to pretend that it is on track to return its books to surplus by 2029, when it is not.

Another potential risk of OBEGALx is that the line between services funded by ACC and those funded by other parts of government is not always clear. Excluding ACC deficits from headline figures gives governments an incentive to shift health-related spending to ACC, simply to exclude it from overall deficit calculations.

Governments should be free to emphasise their preferred fiscal measures, but they should also act in accordance with Generally Accepted Accounting Practice (GAAP). Financial measures of fiscal deficits and public debt should accord with GAAP. Treasury should publish measures approved by the IMF and OECD for balance sheet ratios, enabling international comparison.

Any proposal to adopt an alternative fiscal measure should be accompanied by Treasury analysis of its relation to traditional indicators and consistency with fiscal responsibility principles. Alternative measures should be used consistently across multiple economic cycles, with older measures continuing to be reported alongside new ones. Significant changes to core fiscal indicators should require parliamentary scrutiny.

The incoming government should establish these safeguards and resist any future weakening of the Public Finance Act, including any attempt to reintroduce subjective wellbeing requirements.

The case for a Parliamentary Budget Office

The Fiscal Sustainability Programme is conducted by Treasury for Cabinet. Its aim is to empower Parliament to scrutinise spending quality, with a view to returning the budget to surplus. However, because Treasury itself runs the programme, Parliament is dependent on the agency it is scrutinising for the data and analysis that allows it to do so.

The Initiative's argument for an independent Parliamentary Budget Office identified the underlying problem.⁵⁰ The Public Finance Act is vulnerable to gaming by governments making implausible claims about future spending restraints.

By way of an example, in the December 2025 HYEPU, the government targets a surplus in 2028/29, using OBEGALx as the measure. However, Treasury forecasts a deficit that year, based on OBEGAL.⁵¹ As noted above, the former measure excludes ACC liabilities, which

accounts for the discrepancy. An independent Parliamentary Budget Office would evaluate which trajectory is more credible – a function Treasury cannot perform when it must accept ministerial assumptions. It could also test consistency of a proposed budget with the fiscal responsibility provisions of the Public Finance Act. Treasury cannot make that assessment if it is responsible to a minister who proposes violating those provisions.

A Parliamentary Budget Office would conduct rolling reviews of the value for money of existing spending programmes and publish the results. It would strengthen parliamentary scrutiny by providing analysis independent of Treasury and the Executive.

Similar independent fiscal institutions exist throughout the OECD, including in Australia, Canada, Denmark, Ireland, the Netherlands, the United Kingdom, and the United States.⁵² New Zealand is an outlier.

The structural problem

Unscrambling Government: Less Confusion, More Efficiency (2025) shows that New Zealand’s structure of 81 ministerial portfolios and 43 departments “undermines coherent policymaking, risks driving up public expenditure and weakens democratic accountability”.⁵³ Each minister becomes a claimant to the public purse, creating incentives for new programmes regardless of value. Even with a Parliamentary Budget Office, then, the incentives created by the structure of New Zealand’s executive government will continue to generate expenditure pressure.

Unscrambling Government proposes consolidating portfolios to 15-20 natural policy domains, reducing departments to approximately 20, and introducing a statutory two-tier system of senior Cabinet ministers supported by junior ministers.⁵⁴ This model operates in Australia, Ireland and the United Kingdom.

Recommendations

The incoming government should:

- 1. Maintain a commitment to avoid new taxes.** The government should not introduce wealth taxes, comprehensive capital gains taxes, or digital services taxes.
- 2. Ensure tax relief is funded by prior spending restraint.** Future tax cuts should be funded by credible, legislated operating spending reductions rather than borrowing, to avoid macroeconomic conflicts with monetary policy.
- 3. Replace inefficient taxes with well-designed user charges.** Fuel excise should be replaced with comprehensive road user charges. Congestion pricing would improve the functioning of existing roads while helping inform investment decisions.
- 4. Introduce a director accountability framework for tax defaults.** Directors should have a statutory duty to either remedy GST and PAYE defaults or to initiate formal insolvency proceedings within 30-90 days of such defaults. Appropriate ‘safe harbour’ protections should apply to those who respond responsibly.
- 5. End remaining government subsidies to KiwiSaver.** The reform that commenced in Budget 2025 should be completed by removing all taxpayer subsidies to private retirement savings.
- 6. Link the superannuation age to health-adjusted life expectancy.** A dynamic mechanism would maintain the connection between retirement and pension receipt as longevity increases, avoiding repeated political decisions about specific age thresholds.

7. **Index New Zealand Superannuation to prices only.** NZS payments should be indexed to the Consumer Price Index rather than the net average wage, reducing long-term fiscal liability while maintaining real purchasing power.
8. **Clarify the future of the New Zealand Superannuation Fund.** The government should either commit to resumed contributions when fiscal conditions permit, or wind up the Fund and use proceeds to repay debt and address infrastructure priorities.
9. **Proceed with abolishing the final-year Fees Free scheme.** Savings could be redeployed to support the implementation of industry-led subjects for senior secondary students.
10. **Reinstate interest on student loans.** Savings could be used to provide incentives to employers to offer high-quality workplace-based vocational training, or to support means-tested scholarships.
11. **Require published cost-benefit analyses for major discretionary spending.** All significant grants and funds programmes, including the Regional Infrastructure Fund, should demonstrate that benefits exceed costs through independent, published analysis. Those that do not should be adjusted or abolished.
12. **Close the temporary policy loophole in fiscal forecasting.** Treasury should publish estimates of fiscal outcomes if time-limited policies were to be extended. Scenario-based forecasting and ministerial certification of policy intentions should be considered.
13. **Maintain consistency in fiscal indicators.** Governments should report using GAAP-compliant measures and IMF/OECD standards alongside any preferred alternative indicators. Significant changes to core fiscal indicators should require parliamentary scrutiny.
14. **Protect the Public Finance Act from future weakening.** Subjective wellbeing requirements should not be reinstated. Changes to fiscal reporting or indicator requirements should be subject to parliamentary scrutiny.
15. **Establish a Parliamentary Budget Office.** The office should have statutory independence, focus on value for money and be mandated to conduct rolling programme reviews.
16. **Consolidate ministerial portfolios and government departments.** The number of portfolios should be reduced to 15-20 natural policy domains, with departments consolidated to approximately 20, to enforce accountability and reduce incentives for wasteful spending.

CHAPTER 2

Monetary Policy

Price stability is foundational for a modern economy. When inflation rises, households lose purchasing power, firms postpone investment, and fiscal strain increases for governments. Maintaining price stability requires a central bank with a sound institutional framework and a single mandate to keep inflation within a target band through targeted adjustments to official interest rates.

In the years between 2017 and 2023 the institutional framework guiding New Zealand's monetary policy became blurred. The Ardern government introduced a dual mandate for the RBNZ: as well as keeping inflation within the target band of 1–3 percent, it was expected to support maximum sustainable employment. Inflation reached levels unseen for decades.⁵⁵ At the same time, the RBNZ engaged in extraordinary asset purchases.

In late 2023 the incoming Luxon government inherited a central bank under pressure. Public confidence had fallen, the RBNZ's balance sheet had ballooned and the Crown faced sizeable losses from its Large-Scale Asset Purchase programme. The government implemented policy designed to restore confidence and ensure that the RBNZ maintains focus on price stability. Further work is required, however, to restore a disciplined, durable monetary regime.

A clearer monetary mandate

The most significant reform was the restoration of a single, focused monetary objective. In December 2023, Parliament passed the Reserve Bank of New Zealand (Economic Objective) Amendment Act under urgency.⁵⁶ The accompanying Monetary Policy Committee remit came into effect on

20 December 2023, removing the requirement to support maximum sustainable employment.⁵⁷

The Treasury's Regulatory Impact Statement explained that the dual mandate risked pulling monetary policy in multiple directions and increased the potential for policy error.⁵⁸ The Minister of Finance described the employment objective as a mistake because it weakened the RBNZ's focus on price stability at a time when inflation was rising.⁵⁹

The restoration of the RBNZ's single mandate aligns with the recommendation of the Initiative's report, *Made by Government: New Zealand's Monetary Policy Mess* (2023). The report argued that the dual mandate had weakened the discipline and clarity of the monetary framework.⁶⁰ Another Initiative report, *How Central Bank Mistakes After 2019 led to Inflation* (2022), provided detailed evidence of forecasting errors, policy drift, and governance weaknesses.⁶¹

The inflation target that did not shift

Although the government acted decisively on the mandate, it did not change the target band for inflation. Whereas the Initiative had recommended returning to the original 0–2 percent band, the government retained the 1–3 percent range.

This reflected conditions at the time. Inflation was still elevated. A tighter band would have signalled that interest rates needed to remain higher for longer. The government opted for stability in the short term, even though a narrower target would have anchored expectations more firmly in the medium term.

In *Monetary Policy Without Mates* (2025), the Initiative observed a further complication. Fiscal settings in 2024 and 2025 were expansionary and forced the Monetary Policy Committee to keep policy tighter.⁶² Changing the target in this environment would have intensified the fiscal-monetary tension already present.

While 2023's decision to maintain the 1–3 percent target band was understandable, the incoming government should revisit the target band once inflation is firmly contained and fiscal settings are more consistent with the task of monetary stabilisation.

Normalising the balance sheet

The Large-Scale Asset Purchase programme cost taxpayers around \$10 billion, for dubious benefits. Between 2020 and 2021 the RBNZ purchased large volumes of government bonds and Local Government Funding Agency securities under a Crown indemnity. Parliamentary scrutiny of the potential liability under the indemnity was limited.

These actions expanded the Bank's balance sheet dramatically and exposed taxpayers to significant interest rate risks. The Bank was borrowing at call and investing long at very low interest rates.⁶³

The Initiative warned of the dangers of the large asset-purchase programme early. Its report, *Doing Whatever It Takes with Someone Else's Money* (2020) stressed that launching such a programme without proper parliamentary oversight or a clear exit strategy would expose taxpayers to future losses.⁶⁴

The RBNZ established a plan for unwinding its holdings in early 2022. Its total assets rose from \$25 billion in December 2019 to a peak of \$104 billion in February 2023. In February 2026 they were down to \$72 billion, still nearly triple the 2019 level.

Budget discipline and institutional focus

In April 2025, Finance Minister Nicola Willis announced that the RBNZ's operating budget would be set at approximately \$150 million per year for five years - a 25 percent reduction from 2024 levels.⁶⁵ This represented a correction after a period of budget expansion. At its peak, the RBNZ was spending \$200 million annually.

The budget reduction forced the RBNZ to reconsider priorities. Treasury and Cabinet documents show that Treasury had recommended constraints on spending growth, and that the Minister balanced the RBNZ's request for flexibility to meet statutory obligations against the need for fiscal discipline.⁶⁶

The funding agreement does not explicitly prohibit spending on activities such as climate change analysis or other non-core functions. However, the reduced funding envelope means that operational capacity for such activities is more constrained than during the period of peak spending. Future governments must maintain this discipline and ensure that the RBNZ's resources remain focused on its core statutory functions.

The remaining gaps

The reforms since 2023 have improved the clarity of monetary policy and strengthened elements of governance. The balance sheet is normalising. Competition and efficiency are now recognised in prudential settings. The overall direction is positive.

However, several structural weaknesses remain unaddressed. First, what rules should restrain the RBNZ/Monetary Policy Committee from purchasing non-government securities in the future? The Large-Scale Asset Purchase programme demonstrated the fiscal risks of affording the RBNZ wide discretion in this regard.

Second, currently the Minister of Finance is authorised to issue indemnities worth billions of dollars, without parliamentary ratification. Given the risks to the Crown balance sheet, this arrangement warrants reconsideration.

Third, monetary and prudential roles remain combined within a single institution. The RBNZ continues to regulate the institutions through which it transmits monetary policy. This arrangement complicates accountability and risks conflicts between monetary and prudential objectives. A phased transition to institutional separation would be the most durable solution. As a near-term step, the FPC should be placed on a statutory footing equivalent to the Monetary Policy Committee (MPC), with a rebalanced internal-to-external membership ratio. The Luxon government has so far declined to take that step. Governor Breman has flagged reviewing the FPC's statutory standing. That review should be completed promptly.

Recommendations

The incoming government should:

- 1. Introduce statutory limits on purchases of non-government securities.** Unconventional monetary tools should be confined to pre-existing government securities purchased on secondary markets. The 2020-21 experience showed how quickly balance sheet expansion can create fiscal risks without democratic authorisation.
- 2. Require parliamentary ratification for Crown indemnities above a defined threshold.** The Large-Scale Asset Purchase indemnity exposed taxpayers to billions in potential losses without parliamentary scrutiny.
- 3. Signal a transition to structural separation of monetary and prudential functions.** A clear timetable and implementation plan would give the RBNZ time to prepare while addressing the conflicts of interest inherent in combining both roles.
- 4. Review the inflation target when inflation has been decisively contained, with a view to restoring the 0–2 percent band.** Returning to a tighter band once conditions permit would reinforce the RBNZ's credibility to control inflation.
- 5. Maintain tighter budget discipline.** Require the RBNZ to justify spending on activities beyond its core monetary policy mandate.

CHAPTER 3

Trade, Defence and Geopolitics

New Zealand's prosperity depends upon an open, stable and rules-based international system. A small, trade-dependent nation cannot retreat into self-sufficiency. New Zealanders' living standards rise and fall with the country's ability to sell goods and services abroad, to attract capital and talent, and to operate within an international order that protects small nations from the predations of larger ones.

The order that has prevailed since 1945 is now fracturing. The rules-based international system that has underwritten New Zealand's prosperity faces its most serious challenge in those eight decades. The World Trade Organisation (WTO), the institution most critical to New Zealand's trade interests, has been functionally paralysed for years. The Doha Round collapsed. The Appellate Body has been rendered inoperative by American refusal to appoint new members.⁶⁷ Dispute settlement, the WTO's crown jewel, no longer functions as intended. Meanwhile, protectionism is resurgent. The Trump administration's return to tariff-based trade policy represents an acceleration of trends visible since 2016.⁶⁸

The security environment has deteriorated in parallel. Russia's invasion of Ukraine shattered assumptions about great power behaviour in the twenty-first century. Conflicts in the Middle East have caused severe disruption to energy supplies and caused price shocks. China's military modernisation, its assertiveness in the South China Sea and its explicit ambition to absorb Taiwan create risks that New Zealand cannot ignore. The Indo-Pacific, New Zealand's neighbourhood, has become the primary theatre of geopolitical competition.

The 2023 election brought a government that promised a "foreign policy reset" and decisive

action on defence. It has partially delivered on its promise. Defence spending is rising sharply and diplomatic engagement with the Indo-Pacific has intensified. The relationship with China is being managed with greater realism.

However, there are deeper challenges that policy shifts alone cannot resolve. Trade policy, defence policy and foreign policy are inseparable; prosperity requires both economic openness and security architecture to sustain it.

Trade policy: building on bipartisan foundations

New Zealand has benefited from remarkable bipartisan consensus on trade liberalisation spanning decades. The China Free Trade Agreement (FTA), signed in 2008 under the Clark Labour government, made New Zealand the first developed country to conclude such an agreement with China. The EU and UK FTAs were substantially negotiated and concluded under the Ardern and Hipkins Labour governments. Continuity across administrations of different stripes has served New Zealand well and should continue.

The Luxon government has adopted an ambitious target of doubling export value within a decade.⁶⁹ Labour governments have tended to emphasise environmental and labour provisions in trade agreements. National governments have prioritised market access and commercial outcomes. But these differences are matters of emphasis rather than fundamental direction. Both major parties have recognised that a small, trade-dependent economy cannot prosper behind tariff walls.

Recent progress on agreements has been substantial. The New Zealand-European Union FTA entered into force in May 2024, delivering a 28 percent increase in exports to the EU in its first year.⁷⁰ The upgrade to the China FTA, finalised in 2024, eliminated additional tariff lines for wood and paper products worth an estimated \$36 million in additional trade.⁷¹ Final tariffs and quotas under the Thailand FTA were eliminated on 1 January 2025.⁷² The AANZFTA upgrade with ASEAN entered into force in April 2025.⁷³ New Zealand ratified the Indo-Pacific Economic Framework Supply Chain Agreement in September 2024 and the Agreement on Climate Change, Trade and Sustainability in July 2025.^{74,75}

The government has also concluded or advanced several major negotiations. The New Zealand-Gulf Cooperation Council FTA was concluded in October 2024, eliminating 99 percent of tariffs on New Zealand exports over ten years and opening the sixth-largest export market in the Middle East.⁷⁶ Combined with the New Zealand-UAE Comprehensive Economic Partnership Agreement, which came into force in August 2025, over half of New Zealand's exports to the Gulf region now enter tariff-free.⁷⁷

Formal negotiations with India were launched in March 2025 and progressed rapidly before being concluded with a 'landmark' agreement in December 2025.⁷⁸ It was signed in April 2026 and will go through Parliament's treaty examination process.

Pacific Alliance negotiations remain a significant gap. Talks with Chile, Colombia, Mexico and Peru have languished since 2017 despite the Alliance representing New Zealand's first potential FTA with Colombia and a market of 220 million people.⁷⁹ The government's focus on resolving non-tariff barriers affecting approximately \$600 million worth of exports is welcome, as is its advocacy for WTO reform.⁸⁰ But New Zealand cannot wait for multilateral institutions to heal themselves.

Domestic reform is harder. The ambition to double export value requires more than trade missions and FTA negotiations; it requires fixing the domestic policy failures documented throughout this report. Resource management delays, infrastructure bottlenecks, restrictions on overseas investment, and labour and skill shortages constrain capacity to respond to new market opportunities. The government has implemented important reforms to tackle these constraints.

Diversification is equally critical. China accounts for roughly a quarter of New Zealand's export revenue. This concentration creates vulnerability to economic coercion, as Australia discovered when China imposed punitive restrictions on wine, barley, coal and other exports following political disagreements.⁸¹ Economic interdependence provides no protection against such pressure. Reducing concentration in any single export market is therefore a prudent goal, best pursued through diversifying the range of available FTAs rather than through prescriptive targets. The most effective approach is to expand the network of trade agreements available to New Zealand exporters, giving businesses genuine alternatives when market conditions or political relationships shift.

Defence: the investment New Zealand avoided

For decades, New Zealand congratulated itself on "punching above its weight" in international affairs while spending below its weight on defence. That pretence has become untenable, and the Luxon government deserves credit for recognising this.

The 2025 Defence Capability Plan committed \$12 billion to defence capability over four years, including a \$9 billion increase to baseline funding.⁸² The government has signalled a trajectory toward defence spending of two

percent of GDP, roughly double recent levels.⁸³ This represents the most significant increase in defence investment since the Cold War. The Initiative supports this commitment, but two percent should be considered a floor rather than a ceiling.

However, increased spending alone will not produce a defence force that is modern, credible and useful at the speed the strategic environment now demands.

The harder problem is institutional. New Zealand's defence system still carries too much of the logic of an earlier era – long acquisition cycles, sequential approvals and platform-first thinking – and risks absorbing new funding into a system too slow and fragmented to convert it into real readiness. The distinction that matters is between recapitalisation (replacing ageing equipment so the force can keep operating) and modernisation (changing how the force senses, decides, connects and sustains itself). New Zealand needs both, but the second is harder and more important.⁸⁴

The Ministry of Defence describes the current strategic environment as “the most challenging ... for decades”.⁸⁵ NATO's renewed purpose following Russia's aggression in Ukraine has highlighted New Zealand's curious position as a beneficiary of Western security guarantees without bearing commensurate costs. Prime Minister Luxon's attendance at the July 2025 NATO Summit signalled a shift in posture.⁸⁶ But symbolism alone will not address capability gaps accumulated over decades of underinvestment.

The capability priorities are sensible. They include maritime surface combatants, air defence systems, ammunition stocks and supply chain integration with Five Eyes partners.⁸⁷ New Zealand's geography makes maritime capability paramount. Its ability to contribute meaningfully to coalition operations depends on interoperability with Australian and American forces.

But traditional platforms are now only part of the capability equation. Modern military advantage increasingly depends on how well a force can collect, protect, process, share and act on information. The 2025 Defence Capability Plan reflects this in giving the information domain – intelligence activities, information operations, electronic warfare and cyberspace operations – its own place alongside the maritime, land and aerospace domains, and in funding improved intelligence functions, classified digital services, digital modernisation, information management and space capabilities. For a small force, the information layer carries strategic weight out of proportion to its cost line: New Zealand has less margin than larger militaries to compensate for weak information integration through sheer scale. Public debate has tended to focus on visible hardware – ships, aircraft and combat systems – at the expense of the digital backbone, intelligence support and trained technical specialists that make those platforms operationally meaningful. That balance should shift.

The government is actively investigating participation in AUKUS Pillar Two, the technology and capability cooperation framework additional to Australia's nuclear submarine acquisition.⁸⁸ This represents a significant departure from previous hesitancy. Pillar Two offers access to advanced technologies in artificial intelligence, quantum computing, hypersonic systems and electronic warfare. The technologies involved will shape military capability for decades. Remaining outside the framework risks technological obsolescence and diminished interoperability with New Zealand's closest security partners.

A small state cannot pursue sovereign capability across every domain. The strategic task is selectivity: identifying areas where New Zealand can generate disproportionate value for itself and for close partners.

Three areas stand out. The first is space: New Zealand already has an active launch

environment, a regulatory framework under the Outer Space and High-altitude Activities Act and a Space and Advanced Aviation Strategy that links sovereign capability, economic opportunity and national-security interests. The prize for a small state is not symbolic presence in orbit but assured utility – domestic ground infrastructure, data exploitation, space domain awareness contribution and dual-use support for maritime awareness, disaster response and Pacific resilience.

The second is intelligence, where better open-source exploitation, AI-enabled tools for discovery, triage and translation, and tighter integration between intelligence, operations and decision-makers offer high returns for a country that cannot win through scale.

The third is selected domestic defence and dual-use innovation – software integration, information systems, sensing technologies, space-linked services and specialised sustainment – where local firms can add resilience, faster adaptation, niche export advantage or stronger bargaining position with larger suppliers. Sovereignty here does not mean self-sufficiency. It means the ability to make meaningful choices, retain assured access in critical functions and contribute enough value that dependence remains reciprocal rather than passive.

European instability increases the urgency of reform. If Europe cannot defend its own interests, the multilateral order New Zealand depends upon will weaken further.⁸⁹ We cannot assume others will maintain the architecture of international cooperation. Small states that benefit disproportionately from international rules must bear commensurate responsibility for their maintenance.

China, the Pacific and the Indo-Pacific

China presents New Zealand's most complex foreign policy challenge. It is New Zealand's largest trading partner. It is also, in the blunt

language of the 2024 foreign intelligence assessment, “a complex intelligence concern.”⁹⁰ The Luxon government has begun to manage this tension more explicitly than its predecessor. Whether it has done enough is an open question.

The China relationship: economic partner, strategic concern

The Ardern government's approach was to compartmentalise. It pursued economic engagement while quietly managing security concerns. The logic of that approach was sound at the time, but is increasingly difficult to sustain. China's use of trade as a coercive instrument against Australia demonstrated that economic ties provide no immunity from political pressure. The Luxon government has adopted a firmer public posture, more directly acknowledging security concerns while maintaining economic engagement.⁹¹ This is the right approach. New Zealand cannot afford economic decoupling from China, nor would it serve its interests. But neither can it pretend the relationship is purely commercial.

In *Belt and Road Initiative: Implications for New Zealand* (2024), the Initiative examined the risks and benefits of participation in China's flagship infrastructure programme.⁹² The report concluded that, while the Belt-and-Road-Initiative offers potential infrastructure investment, the risks to policy independence and strategic autonomy may outweigh those benefits. Chinese investment often comes with political expectations that smaller countries find difficult to resist. The report recommended that New Zealand should instead focus on domestic reforms to attract infrastructure investment without the geopolitical baggage. It should streamline overseas investment screening while retaining national security considerations. Resource management laws should be reformed to reduce costs and delays, and funding and financing arrangements should be improved.⁹³

The Pacific: leadership required

The Pacific Islands remain central to New Zealand's foreign policy. These very small

states are New Zealand's closest neighbours and the countries to which New Zealand can make the most difference. Yet China is actively cultivating relationships throughout the Pacific, offering infrastructure investment, security cooperation and diplomatic support. Its 2025 strategic partnership with the Cook Islands shows that competition for regional influence is intensifying.⁹⁴

American attention, despite rhetoric about the Indo-Pacific, remains distracted by other commitments. Australia and New Zealand face growing strategic pressure without adequate backing from traditional allies.⁹⁵ Opportunities for Australian and New Zealand leadership to come to the fore are expanding, but so are the capability challenges.

The government's "Foreign Policy Reset" has made the Indo-Pacific the primary theatre of engagement, with 34 Prime Ministerial and Ministerial visits to the region from February 2024 to June 2025.⁹⁶ Vietnam's relationship has been upgraded to a Comprehensive Strategic Partnership. Similar upgrades are being pursued with ASEAN and Singapore.

While this intensification of engagement responds to real competitive dynamics, wider Indo-Pacific engagement should not dilute New Zealand's necessary focus on the more local Pacific setting. The government has maintained the previous administration's Pacific Reset framework but has not substantially increased resources for Pacific development assistance.

Strategic autonomy in an era of alignment

The shift from strategic hedging toward explicit Western alignment raises questions about policy independence. Some commentators argue that closer alignment with the United States and Australia constrains New Zealand's autonomous foreign policy voice.⁹⁷

This concern has merit but should not be overstated. Strategic autonomy is valuable insofar as it enables New Zealand to pursue its interests, but it is not an end in itself. In the current environment, those interests are better served by deeper integration with like-minded democracies than by cultivating equidistance between competing powers, some of which are highly authoritarian.

The erosion of the rules-based order, driven partly by shifts in American foreign policy towards a transactional "America First" approach, leaves New Zealand vulnerable. The dissolution of American commitment to multilateral institutions fundamentally challenges the assumptions underlying New Zealand's foreign policy settings.⁹⁸ If the United States is no longer a reliable defender of the institutions it built, smaller countries face difficult choices.

New Zealand's response should be twofold. It must strengthen relationships with like-minded partners (Australia, Japan, India, South Korea) who share New Zealand's stake in regional stability. It must also invest in capabilities that give its voice credibility. The government has moved in this direction but could go further by formalising coalition relationships with Indo-Pacific democracies.

A practical question is how to maintain policy flexibility within alliance frameworks. New Zealand has historically been willing to disagree with the United States on specific issues, from nuclear ship visits to Iraq. That willingness should continue. But disagreement on particulars is different from strategic hedging between competing blocs. The former is healthy; the latter, in current circumstances, is dangerous.

The remaining gaps

The reforms since 2023 have moved New Zealand's foreign, trade and defence policy in the right direction. Defence spending

is rising. China is being managed with greater realism. Indo-Pacific engagement has intensified. The trade agreement agenda has advanced significantly. The overall trajectory is positive.

However, several gaps remain.

First, trade ambition has not been matched by domestic reform. The goal of doubling export value lacks a credible plan for addressing the infrastructure, regulatory and workforce constraints that limit export capacity. The recommendations in Chapter 21 regarding the Overseas Investment Act remain unimplemented.

Second, diversification remains aspirational rather than strategic. Vulnerability to economic coercion has been acknowledged but not systematically addressed.

Third, the government has not concluded its position on AUKUS Pillar Two. Continued uncertainty forgoes the benefits of participation while suspending the flexibility that non-commitment supposedly preserves.

Fourth, Pacific engagement has not been resourced to match emerging competitive dynamics. Maintaining the previous government's framework is insufficient when China is actively expanding its regional presence.

Fifth, Pacific Alliance negotiations have stalled despite its potential to bring New Zealand's first FTA with Colombia and access to a market of 220 million people. This contrasts with the successful conclusion of negotiations with the Gulf Cooperation Council – a group of oil-producing states on the Arabian Peninsula – and with India.

Sixth, the integration of trade, defence and foreign policy remains incomplete. These domains are managed by separate ministers and departments with limited coordination. The government has articulated a 'reset' but not a strategy that connects economic objectives to security requirements.

Seventh, defence policy settings have not kept pace with the rising defence budget. Cabinet approval pathways, procurement rules, the treatment of software and digital systems, workforce flexibility for technical specialists and information-sharing settings across agencies were all designed around long-cycle platform acquisition. Information-age capability – software-heavy, data-driven, requiring continuous integration and rapid refresh – fits awkwardly inside that machinery. Without reform of these settings, additional funding will arrive in the field more slowly and less coherently than the strategic environment now requires.

Recommendations

The incoming government should:

- 1. Maintain the bipartisan consensus on trade liberalisation.** New Zealand's trade policy success rests on continuity across governments of different political compositions.
- 2. Pursue and complete FTA negotiations with the Pacific Alliance and other partners to diversify market access.** With the FTA with India agreed, the Pacific Alliance is the most substantial unexploited opportunity.
- 3. Continue active advocacy for WTO preservation and reform, including restoration of dispute settlement.** New Zealand must strengthen its ability to use and defend the multilateral system even as other major players weaken it.
- 4. Reform the Overseas Investment Act to focus screening on genuine national security concerns.** Investments posing no security risk should be processed without delay.

5. **Implement the 2025 Defence Capability Plan and maintain the trajectory toward defence spending of at least 2 percent of GDP.** Rigorous oversight should ensure procurement delivers capability on time and within budget.
6. **Commission a short, independent review of defence capability policy settings.** The review should cover approval pathways, procurement processes and the alignment between strategic ambition and delivery capacity.
7. **Treat the information domain as a first-order priority within defence modernisation.** Intelligence, classified digital services, digital resilience and counter-disinformation capabilities should be governed, funded and measured as rigorously as conventional forces.
8. **Build a targeted national intelligence uplift with strong open-source and AI support.** AI-enabled discovery, triage and translation should be prioritised so that a small country can monitor a broader threat landscape without proportional headcount.
9. **Define a sovereign space-security pathway within 12 months.** The government should specify which space functions to assure over the next decade and which to secure through allied partnerships.
10. **Establish a strategic pathway for selected domestic defence and dual-use innovation.** Local firms should be backed on criteria-based grounds: resilience, interoperability, supply-chain independence and export potential.
11. **Publish an annual public report on defence modernisation progress, with independent oversight.** The report should set out commitments, delivery timelines and accountability for slippage.
12. **Avoid participation in the Belt and Road Initiative.** Domestic reforms to attract infrastructure investment without geopolitical entanglement are a better path.
13. **Increase resources for Pacific development assistance,** focusing on infrastructure, climate resilience and governance capacity. New Zealand's credibility as a Pacific partner depends on sustained commitment, not periodic attention.
14. **Maintain the Pacific Islands as the primary focus of regional engagement.** Indo-Pacific initiatives should complement Pacific priorities, not substitute for them.
15. **Deepen security and diplomatic engagement with Australia, Japan, India and South Korea.** Formalising coalition relationships reduces dependence on any single partner and hedges against shifts in major-power behaviour.
16. **Recognise that New Zealand shares responsibility for the order it depends upon.** Small states that free-ride on international institutions should not be surprised when those institutions weaken.

INFRASTRUCTURE

CHAPTER 4

Energy

Affordable, reliable electricity is the infrastructure on which almost all economic activity depends. Without confidence that affordable power will be available, factories cannot run, hospitals cannot operate, and households cannot sustain their occupants. New Zealand has been fortunate. Decades of hydro development and market reform delivered one of the cleanest and most competitive electricity systems in the developed world.

That system now faces pressure from multiple directions. Demand is forecast to grow dramatically as transport, industry and households electrify. The grid requires substantial ongoing investment. And the perennial vulnerability of a hydro-dependent system to dry years remains unresolved.

The 2023 *Prescription for Prosperity* recommended scrapping the rigid 100 percent renewable electricity target, relying on the ETS as the primary tool for emissions reduction, and adopting a technology-neutral approach to energy investment.⁹⁹ The Luxon government, elected later that year, has moved substantially in this direction.

The Initiative has not yet published substantial research on the current fuel shock, which began with the closing of the Strait of Hormuz. Our views in this area are consequently more tentative. We have elsewhere tried to avoid developing new policy in this document, aiming instead to compile the results of our prior research. We begin with those more tentative views on the current fuel shock, before moving on to areas more firmly based on research reports and submissions.

Hormuz and resilience

The closing-off of a transit route for roughly a fifth of global petroleum liquids consumption has unavoidable consequences, though some hit only with a lag.

At the time of writing, New Zealand is not experiencing a domestic physical fuel shortage. The problem is a global price and supply-risk shock, with the possibility of sharper domestic constraints if shipping or source-refinery conditions deteriorate.

It is impossible to insure against every bad outcome that can emerge. And insurance against some risks is not worth the cost.

New Zealand's fuel security strategy has relied substantially on minimum stockholding obligations. Since 2025, qualifying fuel importers have been required to hold minimum volumes of petrol, diesel and jet fuel within New Zealand's Exclusive Economic Zone.

Every choice has tradeoffs.

Had the government subsidised the continued operation of Marsden Point, or required fuel companies to purchase fuel from there as a regulatory imposition, total fuel costs every year would have been higher.

Retaining Marsden Point would not have insulated New Zealand from this shock. A domestic refinery would still have needed crude oil, and before its closure New Zealand imported crude mostly from the Middle East. It may have changed the shape of the risk, but it would not have removed exposure to disrupted crude markets. It would have

substituted one risk exposure for another, rather than eliminating exposure.

Current disruptions in crude and refined-product markets have meant that consumption has been rationed largely by price. Higher-income markets can bid more for scarce fuel. In a market allocation, cargoes therefore tend to move toward uses backed by higher willingness and ability to pay.

New Zealand can continue to attract scarce fuel supplies because domestic fuel users are willing to outbid others for that fuel. The tankers would stop coming if domestic prices were capped at levels below others' willingness to pay for fuel.

The government's efforts so far have focused on shoring up trade arrangements to help avoid the risk that export controls will be imposed to New Zealand's detriment. And, to provide limited, targeted support so households can better manage some of the increase in costs.

This may be the best possible overall response. Letting prices rise while providing targeted support accords with economists' understanding of two core foundational results in welfare economics: prices are the least-bad way of allocating scarce resources, and if governments find the resulting outcomes inequitable, transfers are the best response.

Broad price controls and hard rationing schemes would do harm.

Prices are the normal way of rationing scarce resources. Most resources are scarce, so they draw positive prices. Low-valued uses of goods are outbid by higher valued uses. This happens constantly and invisibly. It is just how markets work.

If prices do not ration scarce resources, something else must. Government rationing schemes would have to guess which uses are truly most valuable. Such guesses would be fraught.

And, importantly, ships would stop arriving with fuel if the government prohibited fuel users from outbidding fuel users overseas. At the margin, tankers would be diverted elsewhere if New Zealand capped domestic prices below the prices available in other markets.

Hard rationing schemes and general price controls make little sense in most contexts and make no sense in this one. In a severe shortage, government may have to direct limited Crown-controlled buffer stocks toward protected uses – as will be discussed below. But that is very different from replacing prices across the wider fuel market with an administrative allocation scheme.

Trade agreements are helpful. But it is impossible for those agreements to protect against all risks.

Once in force, the NZ–Singapore Agreement on Trade in Essential Supplies will provide a narrow but valuable form of fuel-supply insurance. For listed essential goods traded between the two countries, including refined petroleum products on New Zealand's published list, neither government will be able to rely on the ordinary GATT critical-shortages exception to block exports to the other. That does not guarantee physical supply, override private contracts, or prevent measures taken under surviving security or general exceptions. But it does mean that, in the kind of emergency where Singapore wished to reserve refined fuel for domestic use through formal export bans or quotas, New Zealand should be among the hardest destinations to restrict lawfully.

But if Singaporean refineries stopped being able to secure oil imports, they would have nothing to export to New Zealand. If oil available to those refineries became sufficiently scarce, domestic Singaporean fuel uses and other export markets could plausibly outbid most New Zealand fuel uses. And importers from larger markets could make continued supply to their plants a condition of longer-term contracting.

If the Strait of Hormuz remained effectively closed for a long period, oil markets would adjust. Production and export capacity would expand elsewhere where they could, refineries would alter crude slates where possible, and consumption would fall in response to higher prices. But that adjustment would take time and would be costly. The acute supply-security problem would diminish, but not disappear; it would be transformed into a world of higher prices, more expensive logistics, and greater value placed on inventories and supply diversity.

And governments in places like New Zealand could also remember that carbon pricing is a better way to manage emissions than hostility toward exploration and extraction. Having reversed the exploration ban, the more important task is to make future policy reversals less likely, so that investors can price geological and commercial risk rather than political risk.

Risks of severe disruption are more likely in the short to medium term. Delayed or disrupted tankers would be harder to quickly replace. And the real option value of fuel held in reserves could increase substantially.

When future tanker arrivals are highly reliable, the option premium on reserve fuel is small.

As the probability of delayed or cancelled arrivals rises, that option premium can become very large. As the odds of disruption increase, the shadow value of fuel held in reserve rises. The relevant cost of using a litre is no longer its historic acquisition cost, or even the landed price of the next tanker, but the value of the future option being surrendered.

Imagine that the government and fuel suppliers knew that tankers were secure for the next month, and that no additional tankers would arrive for the two months following that. Suppose as well that reserve tanks at Marsden were currently full and would be fully replenished with the last tanker deliveries.

In that scenario, the real option value of fuel held in existing reserves would be low for the first month. Conservation efforts would mean that arriving tankers would have nowhere to unload. However, industrial and agricultural users with on-premise fuel tanks that are not filled to capacity could provide additional storage.

Publication of the fact of the impending shortage, and the sharp increase in fuel prices that would follow, would encourage some current lower valued fuel uses to abate, with that fuel diverting to storage for higher-valued future uses.

When further supply ceased, every litre used would mean a litre that could not be used for the duration of the shortage. Current uses would be competing with future uses. Prices would rise sharply. Low valued uses would be priced out, along with many higher-valued uses as reserves needed to stretch to cover twice their planned duration.

The situation would be awful, but difficult to improve upon.

Government would face pressure to cap or control prices. If it did, it would be forced to ration fuel uses. It would have to guess which uses of fuel were most valuable. Every sector would insist that its uses were most critical and that it could not reduce consumption without terrible cost. And each would be correct in making that claim.

Lower valued fuel uses would continue, and some higher valued uses would necessarily cease.

Hopefully, this scenario will not play out. But if it does, the government should not resort to hard rationing and price controls. If politically necessary, it could provide limited rationed supply at politically-mediated prices from the additional 90 million litre diesel buffer arranged with Z Energy in April 2026, once it is in storage and available for Crown-directed release. But

that should sit alongside market pricing for the wider fuel supply, not replace it. At the margin, tankers would be diverted elsewhere if New Zealand capped domestic prices below the prices available in other markets

There is one additional risk of policy consequence. If fuel companies expected long-term brand damage from very high fuel prices to exceed long-term brand damage from completely running out of fuel, they could underprice fuel relative to its real option value in this scenario.

If MBIE's consultations showed that fuel companies were reluctant to raise retail prices to scarcity-clearing levels because of reputational concerns, government could consider a temporary retail-side scarcity charge. The charge would need to raise the price faced by users without reducing importers' incentives to secure additional cargoes. Revenues should be returned through targeted transfers. It would be second-best: higher net prices paid to fuel companies are the cleaner way to help them bid for scarce tankers as and when they become available. But if prices would not otherwise rise sufficiently, a scarcity charge would be better than running out.

But the same reputational concerns that could prevent fuel companies from increasing prices in a real severe shortage would also make such levies unlikely for any government seeking re-election.

The 100 percent renewable target

The Initiative's position on the 100 percent renewable electricity target has been consistent since 2019. In *Switched On*, it demonstrated that renewables were on track to reach 95–97 percent of generation without policy intervention, but that forcing out the final few percent would be tremendously expensive and could paradoxically increase emissions by displacing gas with coal during dry years.¹⁰⁰

The Interim Climate Change Committee reached similar conclusions that same year, finding the 100 percent target would raise electricity prices while delivering worse environmental outcomes than alternative approaches.¹⁰¹ Because New Zealand's hydro-dependent system needs dispatchable backup for dry years, mandating 100 percent renewables means either building vast overcapacity in generation and storage or accepting blackouts when rain does not come.

The government has implicitly accepted this logic. In August 2024, Energy Minister Simeon Brown said that New Zealand has “an exciting future powered by clean and green renewable electricity, buttressed by fossil fuels” and that the government “won't die in a ditch over the last couple of percent if it places unreasonable costs on households and puts security of supply at risk.”¹⁰²

The 100 percent target by 2030 remains nominally in place but has been effectively downgraded to an aspiration that will not be pursued if it compromises affordability or security of supply. In substance if not in name, the rigid target has been abandoned.

A future government should formalise this shift. Retaining aspirational targets that no one intends to meet creates uncertainty for investors and confusion for the public. The focus should be on emissions outcomes through the ETS, not on mandating particular technologies.

The ETS as primary instrument

As discussed in Chapter 18, the ETS should be the primary tool for reducing greenhouse gas emissions. The government has largely accepted this framework, substantially reducing ETS auction volumes in July 2024, cutting unit supply from 45 million to 21 million units for the 2025–2029 period.¹⁰³ Tightening like this, rather than sector-specific mandates, drives emissions

reductions where they can be achieved most cost effectively. ETS coverage of generation means that any additional renewable-specific policies would be redundant and counterproductive.

However, the ETS works best when market participants trust it. The November 2025 changes to climate legislation have shaken that trust by delinking the ETS from Paris Agreement targets and removing alignment requirements.¹⁰⁴ Carbon prices fell 18 percent following the announcement.¹⁰⁵ The incoming government should address this by fixing in legislation the quantity of unbacked units that can be issued through 2050, to provide external constraints on political discretion and restore investor confidence in long-lived generation assets.¹⁰⁶

Consenting reform

Forecasts suggest electricity demand could increase by 70–170 percent above current levels by 2050 as the economy electrifies.¹⁰⁷ The government's Electrify NZ plan commits to supporting investment in generation, transmission and distribution infrastructure to meet this demand.¹⁰⁸

Consenting reform is critical to enabling this investment. The RMA has long been identified as a barrier to energy infrastructure, with approval processes stretching over years, adding substantial costs to projects.

The Fast-track Approvals Act 2024, which became operational on 7 February 2025, has already demonstrated the potential of streamlined processes. The Tekapo Power Scheme solar farm was approved in approximately 80 days under the new pathway.¹⁰⁹ This compares favourably with the multi-year timelines that characterised RMA processes.

The Initiative supports consenting reform, but it should be technology neutral. The government's

focus has been on renewable energy – understandable given climate objectives – but the logic of the ETS applies equally to all generation sources. Renewable energy is important for decarbonisation, but non-renewable projects may contribute to resilience, transitional supply and affordability.

The emphasis should be on efficient consenting for all beneficial energy projects. The ETS price signal rather than regulatory preferences should determine which get built. A technology neutral approach would let the carbon price do its work while ensuring that all options for maintaining reliability remain available.

Energy security and dry year risk

New Zealand's heavy reliance on hydro generation creates exposure during dry years when lake levels fall. The 2021 dry year saw a substantial increase in coal burning, exposing the fragility of a system designed around the false assumption that renewable generation will always be available.

The government has committed to removing regulatory barriers to LNG import terminal construction and launched a formal procurement process for such a facility.¹¹⁰ It has reversed the ban on new offshore oil and gas exploration. Budget 2025 set aside \$200 million for co-investment in gas fields. The previous government had proposed Lake Onslow, a large-scale pumped hydro scheme for dry-year storage, but that would have been extraordinarily expensive and may have suppressed investment in more cost-effective alternatives. Imported LNG provides a more appropriately scaled solution, offering dispatchable backup without the capital intensity of mega-infrastructure projects, though geopolitical risks (such as disruption to the Hormuz Strait) remain.

These moves acknowledge that some thermal backup is necessary for system reliability

until long-duration storage technologies prove economic at scale. Critics object that this amounts to backsliding on climate commitments. It does not.

Under a binding ETS cap, emissions remain constrained regardless of which technologies provide backup generation. If gas plants run during dry years, the emissions occur within the cap. The ETS price signal ensures that such backup is used only when genuinely needed and that investment flows toward alternatives as they become cost-effective.

Grid investment and unresolved regulatory challenges

Meeting forecast demand growth while maintaining reliability will require unprecedented investment. The government has signalled willingness to participate in equity raises by the Mixed Ownership Model electricity companies, correcting the perception that Crown capital constraints would prevent major investments.¹¹¹

Transmission and distribution upgrades may require over \$100 billion by 2050.¹¹² However, there are several unresolved regulatory and pricing challenges. The transition to distributed generation (solar, batteries) and rooftop solar adoption creates questions about sustainable line charging frameworks – how to fund network costs when customers are generating at home. WACC averaging periods and interest rate sensitivity continue to generate debate. There are persistent calls to split the gentailers, though evidence suggests this is more likely to increase costs than to reduce them. The extent to which carbon charges pass through into wholesale electricity prices during peak periods, and whether this matters for policy, remains unsettled. And if energy security is a priority, the current regulatory environment and government guarantees may not be sufficient to support new exploration in frontiers like the South Canterbury Basin.

The credibility problems introduced by the November 2025 climate law changes have implications throughout the energy sector at precisely the moment when major capital commitments are required. Investors considering 30-year infrastructure commitments need confidence that the rules will not be changed arbitrarily. The ETS must be trusted to hold its value, consenting reform must deliver promised timelines, and revenue adequacy must be assured.

What remains unresolved

The government has made substantial progress in aligning energy policy with the Initiative's recommendations. However, several issues remain unresolved.

First, consenting reform remains focused primarily on renewable energy. A technology-neutral approach would better serve both reliability and emissions objectives by letting the ETS price signal, not regulatory preferences, determine the energy mix. A focus on consenting conditions for renewable energy is justifiable to the extent that those hurdles are more material than those facing thermal generation.

Second, the 100 percent renewable target remains nominally in place despite being effectively abandoned. Formalising its removal would provide clarity for investors and the public.

Third, grid investment and energy market design present unresolved challenges: pressure on lines charging frameworks as distributed generation proliferates, the claimed case for 'gentailer' separation, the pass-through of carbon costs in wholesale pricing, and whether regulatory guarantees are sufficient for new gas exploration.

New Zealand's electricity system is among the cleanest in the developed world, achieved through market competition rather than central planning. The task now is to maintain that

success while meeting growing demand and ensuring reliability. An ETS-led approach, supported by sensible consenting reform and technology-neutral investment frameworks, offers the best path forward.

Deviations from technology-neutrality can be defensible when considering basic research support for novel technologies with very strong upside potential, including supercritical geothermal and fusion.

The incoming government should hold this line while addressing the credibility problems that recent legislative changes have introduced.

Recommendations

The incoming government should:

- 1. Resist price controls and hard rationing in fuel markets.** Allowing prices to do their job would be the best mechanism for allocating scarce fuel. Price controls and hard rationing would be distorting and risk unintended consequences.
- 2. Deliver any household relief through targeted transfers, not broad subsidies.** Across-the-board fuel subsidies would be fiscally expensive and would suppress the price signal that rations scarce fuel toward its highest valued uses. Means-tested cash transfers address hardship without worsening the supply problem.
- 3. Strengthen fuel supply resilience through trade agreements and stockholding.** The government should pursue arrangements equivalent to the New Zealand-Singapore Agreement on Trade in Essential Supplies with other refinery nations and ensure minimum stockholding obligations reflect current disruption probabilities.
- 4. Maintain the ETS as the primary climate policy instrument.** The temptation to layer complementary policies that cannot reduce emissions under the cap should be resisted.
- 5. Formalise the abandonment of the rigid 100 percent renewable target.** The target should be replaced with a commitment to emissions outcomes consistent with the ETS cap, allowing technology-neutral investment decisions.
- 6. Ensure consenting reform is technology neutral.** Faster approvals for energy infrastructure should not favour particular generation technologies. The same consenting pathway should apply to wind, solar, geothermal and gas-fired generation.
- 7. Maintain focus on energy security and dry year risk.** Adequate dispatchable backup should be ensured until long-duration storage is proven at scale and at competitive cost.
- 8. Support grid investment at the scale required.** Commitments to participate in equity raises for major generation investments must be followed through. Grid capacity is a binding constraint on the energy transition.

CHAPTER 5

Transport

Transport infrastructure underpins economic productivity. When roads are congested, goods move slowly, workers waste hours in traffic, and the country pays the price in lost productivity. When investment decisions are driven by politics rather than rigorous analysis, taxpayers fund projects that cost more than they should and deliver less than they promise.

New Zealand has struggled on both fronts. Urban congestion costs billions annually and major infrastructure projects, including roads, have suffered repeated cost blowouts. The underlying problem in each case is a failure to apply proper pricing and commercial discipline to transport investment.

The 2023 *Prescription for Prosperity* recommended urgent action on congestion charging and a transparent system to maintain public support. Since then, Parliament has legislated to enable congestion pricing, and the government has moved toward comprehensive reform of road user charges. However, the principles that should guide road pricing have not yet been applied consistently across other modes of transport.

The case for road pricing

New Zealand has talked about congestion pricing for decades. In November 2025, Parliament finally acted. The Land Transport Management (Time of Use Charging) Amendment Bill passed its third reading, giving local authorities the legal framework to implement congestion charging schemes.¹¹³ Auckland is set to be the first to move.

The Initiative has long argued that building more roads alone cannot solve congestion, pricing

must also play a part. *The Price is Right: The Road to a Better Transport System* (2019) argued that, when a scarce resource is free at the point of use, people overuse it.¹¹⁴ Road capacity at peak times is a scarce resource. If drivers do not have to pay for that resource, they have no reason to consider whether their journey is worth the delay they impose on others.

Auckland's congestion is estimated to cost \$2.6 billion in lost time, reduced investment and foregone economic activity.¹¹⁵ That figure will continue to grow. A 2019 government forecast suggested New Zealand's total vehicle kilometres travelled could increase by as much as 66 percent by 2040.¹¹⁶ More cars on unpriced roads means more congestion.

The passage of legislation enabling congestion charging is welcome, but implementation will face challenges. One such challenge facing the incoming government will be to build public support for the approach by getting Auckland's scheme right. Beyond congestion charging, comprehensive road pricing reform can then be tackled.

From legislation to implementation

The Land Transport Management (Time of Use Charging) Amendment Act established a framework. Local authorities can now set up congestion charging schemes by notifying the New Zealand Transport Agency (NZTA).¹¹⁷ Auckland Council has been developing options focused on city centre access and key motorway corridors. Wellington has also expressed interest.

International experience shows that scheme design determines whether a road charging

initiative succeeds or fails. London's congestion charge, introduced in 2003, reduced traffic in the charging zone by around 30 percent, though the scheme has been weakened by extensive exemptions that undermine its effectiveness.¹¹⁸ Stockholm's cordon charges cut traffic by 20–25 percent.¹¹⁹ Both schemes succeeded because they were well-designed, clearly communicated, and accompanied by improvements to public transport alternatives.

Auckland's scheme must learn from these examples. The Initiative's submission on the Bill emphasised the importance of starting with a workable scheme that can be refined over time.¹²⁰ Perfection should not be the enemy of progress. A simple cordon charge for the city centre, implemented in 2026 as the government has signalled, would demonstrate the concept and build public acceptance for broader application.

A greater risk is delay. Congestion pricing has been discussed in New Zealand since at least the 1990s. Every year of further inaction costs Auckland billions. The incoming government should hold Auckland Council to an ambitious timeline and offer whatever support is needed to make implementation happen.

The revenue question

Public acceptance of congestion charging depends on what happens to the money. If charges are seen as just another tax, political support will evaporate.

Congestion charging schemes have one purpose only. They aim to maximise the number of completed trips that infrastructure can handle. If charges are too low, congestion will mean fewer trips being completed than could be. If charges are too high, some trips that could successfully have taken place without impeding others will not occur. Auckland's design should therefore minimise exemptions to preserve the pricing signals that will optimise usage.

The revenue raised by congestion charging is a byproduct, not the point. How that revenue is used is, therefore, more of a political economy question than anything.

If a scheme's revenues flow to the agency responsible for the congestion charging scheme, that agency will be tempted to set charges with revenue goals in mind. Equity considerations can lead to calls for carve-outs from congestion charging schemes for vehicles considered critical, or for groups considered harmed by having to pay more for the use of the road at peak times.

The 2023 *Prescription for Prosperity* recommended a transparent "congestion dividend" system to maintain public support and prevent accusations of revenue grabbing.¹²¹ The Initiative's 2024 report *Driving Change: How Road Pricing Can Improve Our Roads* strongly reiterated this position, detailing how revenue recycling is essential to the political sustainability of any scheme.¹²² To address equity concerns in a better way than exemptions, dividends could be higher for road user charge accounts associated with community service card holders. A carefully designed dividend scheme could preserve incentives to avoid driving at peak times while rebating collected revenue back to those using the local roads, including buses and emergency vehicles.

The dividend would have an additional advantage. Coupled with transparency about the setting of congestion charges, it would ensure that drivers would not see the charges as either a tax-grab or as an anti-car initiative.

Beyond congestion: the case for smart RUCs

Congestion charging addresses peak-time bottlenecks, but New Zealand's broader transport funding system also needs reform. Fortunately, much of the change is already in progress.

In August 2025, a Cabinet decision to modernise the Road User Charges (RUC) system was announced and legislation introduced shortly after, the Land Transport (Revenue) Amendment Bill.

All vehicles will shift onto RUCs and Fuel Excise Duty on petrol will be abolished. (Diesel vehicles already pay RUCs, not fuel excise duty, and will continue to do so.) The change will improve system sustainability and deliver equity across different types of vehicles. No timeline has been announced for the shift, but New Zealand could become the first nation to transition completely from motor fuel taxes to road user charges.¹²³

The system will enable digital licences, electronic payment devices, flexible billing options, and the integration of tolls and time-of-use charges into a single automated payment.¹²⁴

The Initiative has long advocated this kind of reform.¹²⁵ So have others – some of what has been proposed was included in the Shipley government’s 1998 ‘Better Transport Better Roads’ proposal. That proposal also included structural reform that would have set council-owned roading companies as owners and managers of local roading networks.

The Luxon government is also investing heavily in new road capacity through the Roads of National Significance programme.¹²⁶ But the business case for many proposed projects is weak and the bill for maintaining the new roads would be substantial.

Requiring new roads to cover their capital cost over time through tolls would introduce stronger market discipline into the process. If a new road cannot cover its capital cost through tolling revenue over time, the case for building it is much weaker. But current rules forbid tolling unless a comparable free alternative is available.

Removing restrictions on road tolls would enable a more comprehensive user-charging system. *Driving Change: How Road Pricing Can*

Improve Our Roads proposed Smart RUCs.¹²⁷

Under this system, all vehicles would pay based on how much they use the roads, when and where they drive, and their weight class (justified because heavier vehicles cause greater road wear and damage). GPS-based technology makes this feasible. The result would be a transport funding system that is fairer, more efficient, and sustainable as the vehicle fleet changes.

Beyond roads: governance lessons from rail and sea

The governance principles that should guide road pricing reform – user-pays funding, rigorous cost-benefit analysis, and depoliticised investment decisions – are relevant to other transport modes. Recent experience with the Auckland City Rail Link and Interisland ferry replacement illustrates the consequences of departing from these principles.

Removing government from the operational side of ferry, rail and similar services, while maintaining a clear user-pays and commercial discipline framework, should be the default approach. Crown ownership of commercial transport services has consistently produced cost escalation, political interference in operational decisions and underinvestment in maintenance. The Interislander replacement demonstrated what happens when these incentives are finally corrected. The lesson should be applied systematically, not only when costs become politically embarrassing.

Recommendations

The incoming government should:

- 1. Implement congestion charging in Auckland.** The enabling legislation exists and Auckland Council has developed scheme options. The incoming government should set a firm implementation date.

- 2. Strengthen revenue neutrality commitments.** Congestion charge revenues should be reinvested in regional transport, with reductions in other charges to ensure motorists are not paying twice.
- 3. Establish clear incentives for congestion charging adoption.** The framework established by the Time of Use Charging Bill creates opportunities for other cities. The government should ensure councils that adopt congestion charging retain the revenue benefits.
- 4. Accelerate RUC modernisation toward Smart RUCs.** Given the pace of fleet electrification, faster transition to distance-based, telematic road user charges would maintain the tax base while improving pricing efficiency.
- 5. Improve governance of state-owned transport infrastructure.** The Interislander replacement demonstrated the cost of retaining Crown ownership of commercial transport assets without adequate governance discipline. KiwiRail's governance structure should be reviewed.
- 6. Build independent evaluation and pricing adjustment into scheme design.** Auckland's congestion charging scheme should include transparent, regular review mechanisms to ensure charges reflect actual congestion costs.

CHAPTER 6

Infrastructure Regulation, Funding and Financing

It is trivially easy to create a shortage or ‘deficit’ of anything scarce and costly by setting the cost to users at zero. The New Zealand Infrastructure Commission (NZIC) estimates the gap between the country’s existing infrastructure and demand for infrastructure at \$210 billion. But that figure reflects demand and forecast demand as it stands today - inflated by the absence of proper pricing for roads, water and other network services. When roads carry no congestion charge and water has no volumetric price, people use more of both than they would if they faced the true cost. Price infrastructure correctly and some of that demand disappears, narrowing the gap without building anything.¹²⁸ The problem is not that New Zealand spends too little on infrastructure but that it gets too little for what it spends. Moreover, it does not appropriately charge for the infrastructure it has.

New Zealand directs roughly 5 percent of GDP to infrastructure annually, a high proportion relative to most developed countries.¹²⁹ Yet the World Economic Forum’s Global Competitiveness Report ranked New Zealand 46th out of 141 countries for infrastructure quality – worse than nearly every comparable economy.¹³⁰

The 2023 edition of *Prescription for Prosperity* recommended embracing private enterprise to deliver infrastructure, promoting greater localism and stripping away regulation.¹³¹

The infrastructure paradox

The systems through which New Zealand consents, funds and delivers infrastructure are broken. Regulatory compliance can delay projects for years. As mentioned in chapters 10 and 14, councils face perverse incentives that punish them for enabling growth. Private capital sits on the sidelines, unable to find a pipeline of investable projects. Until these systems are fixed, more spending will simply produce more waste.

The Initiative’s research has consistently identified these structural failures. *The Price is Right* (2019) showed that without proper road user pricing, congestion costs the country more than a billion dollars every year.¹³² *Paving the Way* (2023) documented how New Zealand once built infrastructure more effectively and identified the institutional arrangements that made that possible.¹³³

Without proper road pricing, additional lanes and tunnels can feel like the only possible solution to congestion. But congestion charging both helps to ensure the most efficient use of existing roads and reveals when more investment could be beneficial. If the congestion charge needed to improve traffic flow at peak times is low, an expensive new tunnel may not be needed. If the required charge is high, it may be warranted. Prices help discover whether investment is worthwhile.

The incoming government will inherit an opportunity. The current government has made real progress on regulatory reform. This has created foundations the incoming government can build upon. Even so, decades of underperformance will not be reversed quickly.

Progress on regulatory reform

Of the infrastructure recommendations from the Initiative's *Prescription for Prosperity 2023*, regulatory reform has seen the most decisive action.

The Fast-track Approvals Act

The Fast-track Approvals Act 2024 created a streamlined consenting pathway for projects of regional or national significance.¹³⁴ Early results are encouraging. The first projects received consent in under seven months – a timeline that would previously have stretched to years.¹³⁵ Expert panels, not ministers, make final decisions, addressing concerns about political interference. The Act has approved renewable energy projects, housing developments and metropolitan infrastructure that might otherwise have languished in consenting purgatory.

Targeted RMA amendments

The Resource Management (Consenting and Other System Changes) Amendment Act 2025 went further, establishing default maximum timeframes for consent processing and prioritising infrastructure and renewable energy projects.¹³⁶ These reforms will not solve everything, but they represent the most significant attack on consenting delays in a generation.

The RMA replacement legislation

Perhaps the most significant reform is the introduction of the Planning Bill and Natural Environment Bill in December 2025 – a once-in-a-generation overhaul that would replace the Resource Management Act with a framework intended to be grounded in property rights.¹³⁷ But as discussed in Chapter 17, there is a gap between the intent of the Bills and their detail.

A note of caution on fast tracking

The government continues to push for improved consenting times. The Fast-track Approvals Amendment Bill, introduced in November 2025, seeks to accelerate the process by streamlining procedures.¹³⁸ However, the bill has attracted

criticism for being rushed – the public was given only seven working days to make submissions – and for expanding ministerial powers in ways that concern legal and environmental groups.¹³⁹

The incoming government should ensure that efficiency gains do not come at the cost of constitutional safeguards. The Initiative has previously recommended that any streamlined consenting pathway should include a sunset provision – a time limit that would force the government to formally review and re-authorise the process rather than letting it become a permanent default. This principle should apply to both the Fast-track Approvals Act and the proposed amendments.

Private financing: framework without pipeline

On private financing, implementation has been slower. The framework has improved substantially but the pipeline of actual projects has not kept pace.

The government updated the Public-Private Partnership (PPP) framework in November 2024. Its *Blueprint for Future Transactions* incorporated lessons from past projects and international best practice.¹⁴⁰ Treasury assumed stewardship of PPP policy in December 2024, and the National Infrastructure Funding and Financing agency now operates as the government's 'investor shopfront' for private capital.¹⁴¹

The Infrastructure Investment Summit in March 2025 brought together over 100 senior executives from global and domestic infrastructure firms, showcasing New Zealand's investment pipeline to investors managing some \$6 trillion in assets.¹⁴² Shortly thereafter, in April 2025, Brookfield Asset Management and Tainui Group Holdings announced a NZ\$1 billion joint venture to develop the Ruakura logistics hub in Hamilton – a major private investment

in industrial infrastructure. The initiative demonstrates that capital will flow when frameworks are credible.¹⁴³

The Initiative's position is that PPPs require three specific conditions to work optimally. First, the private sector should be better positioned than the state to bear risk and bring expertise to manage that risk. Second, PPP structures should enforce ongoing maintenance obligations that might otherwise be deferred by a budget-constrained government. Third, government must have the contracting sophistication to enforce agreements and protect the public interest. PPPs should not be used simply to convert upfront capital expenditure into ongoing operational costs for cosmetic balance-sheet reasons. Such arrangements misallocate risk and are often poor value for money. Effective private sector involvement requires that government be capable of contract management. That capacity is inconsistent across New Zealand's institutional landscape.

Even though the framework for PPPs has improved, and the institutional architecture exists, there are only a few PPP projects in train. Most major infrastructure continues to be funded through conventional government borrowing.

Part of the problem is complexity. The current PPP model suits billion-dollar roading projects but offers no simplified pathway for community-scale infrastructure like local water systems or regional transport links. The Initiative's earlier work on infrastructure financing identified this gap. Mechanisms that work for major national projects do not automatically scale down to the community level.¹⁴⁴

Localism: the starkest gap

The Initiative has documented extensively how councils' capacity to deliver infrastructure is constrained by misaligned fiscal incentives (as discussed more fully in Chapter 10).

The solution is not simply to remove central government from infrastructure decision-making. The incentive misalignment described above means that, without central direction, councils will continue to obstruct growth even when it is in the national interest. The Initiative supported policy tools like the National Policy Statement for Urban Development for that reason. The goal is to align incentives so that councils benefit from infrastructure development. Until those incentives are reformed, central government mandates will remain necessary.

By late 2025, despite years of recommendations, meaningful fiscal devolution remains limited. Central government still directs the Regional Infrastructure Fund. Auckland Council must comply with central housing mandates around the City Rail Link. Local authorities operate under debt constraints that prevent them from financing infrastructure even when they want to.

The perverse incentives problem

When a council enables new housing development, central government captures the GST on construction and the income tax from new residents. The council bears the cost of roads, pipes, parks and community facilities – costs that rates and development contributions only partially recover. This is not a recipe for councils enthusiastic about growth. It gives councils every reason to obstruct it.

A democratic void, identified in *Making Local Government Work* – whereby mayors and councillors lack the authority to direct the organisations they nominally lead – compounds the problem. Unelected officials can act autonomously while elected representatives lack the resources and power to direct them.

Why Infrastructure Reform matters

Infrastructure shapes economic opportunity. A business deciding where to locate weighs

transport links, energy reliability, water and telecommunications. A family choosing where to live considers schools, hospitals and the roads that connect them. When infrastructure fails, these decisions become constrained. People settle for less, businesses invest elsewhere, and productivity suffers.

NZIC's September 2025 pipeline update identified over 12,000 infrastructure initiatives across 139 providers, with \$181 billion in committed funding.¹⁴⁵ Yet the current dysfunctional governance and pricing systems mean that even these commitments are probably unsustainable. The Commission estimates that the status quo settings on how infrastructure decisions are made and priced, will require increases in infrastructure spending to increase from roughly 5 percent to 10 percent of GDP over thirty years. That spending that would be dominated by maintenance of infrastructure that may never have made economic sense even to build. The infrastructure deficit is too large to fix by simply investing more. Closing it will require institutional reform.

Private financing and localism will be necessary components of that reform. Better governance, pricing and incentive alignment would enable capital to be allocated more efficiently, avoiding wasting it on unnecessary infrastructure.

Asset recycling

Before building new infrastructure, the incoming government should ask what it can do with existing assets.

As of 30 June 2025 the Crown held approximately \$598 billion in assets across social, financial and commercial categories.¹⁴⁶ Much of this is underused. School buildings sit empty on weekends. Government land banks appreciate in value while adjacent communities lack housing. State-owned enterprises operate infrastructure

that could be expanded or better maintained with private capital or management expertise.

Asset recycling offers a way forward. Non-core commercial assets that are not central to the state's function could be sold or leased, with the proceeds reinvested in new public infrastructure. This would generate capital without raising taxes or increasing debt. Australia's Asset Recycling programmes demonstrated this model's potential, using proceeds from electricity network leases and sales of other state-owned assets to fund new transport and social infrastructure.¹⁴⁷

It would begin with a disciplined process of identifying assets where private ownership or operation would be at least as efficient as public ownership. The aim is to free capital for investment where only government can act. Asset recycling initiatives should include transparent criteria and dedicated funds for reinvestment. Ring-fencing the proceeds of sales and leases for the development of new infrastructure is essential, both for the integrity of the approach itself, and for its political acceptance. Voters are far more likely to embrace the sale of a state-owned asset if they see something new to show for it. The proceeds should also be additional to normal capital budgets rather than substituting for them, and should fund projects against an independently prioritised national infrastructure pipeline. The incoming government should establish a formal asset recycling programme with these attributes.

Fixing local government finance

The Initiative has long advocated specific mechanisms to address the perverse incentives facing councils. These are discussed in greater detail in Chapters 6 and 10, but mentioned below:

- GST revenue sharing: Councils could receive grants benchmarked by a portion of the estimated GST generated by new developments.

- Special purpose bonds: debt instruments tied to specific infrastructure projects, repaid over decades by the residents and businesses who benefit from that infrastructure.

Performance-based devolution should accompany these tools. Councils with demonstrated fiscal prudence and governance capacity should receive greater autonomy and access to financing mechanisms.

Remaining gaps

Reforms since 2023 have improved the clarity of consenting and strengthened elements of governance. However, essential institutional reforms have not yet been implemented. The fiscal incentive misalignment facing councils remains unaddressed, asset recycling has not been formally established, and the RMA replacement legislation, while promising, will not be fully operational until 2029. The incoming government should complete the agenda by implementing necessary institutional reforms particularly on local government fiscal incentives and asset recycling.

New Zealand does not lack the resources to close its infrastructure deficit. It lacks the institutional arrangements that would put those resources to work. The incoming government has an opportunity to change that by developing smarter systems, better pricing, and governance reform.

Recommendations

The incoming government should:

1. **Pass the RMA replacement legislation and implement it well.** The Planning Bill and Natural Environment Bill now before Parliament are the most significant planning reform in a generation. They should be

passed in 2026, incorporating suggestions made in The Initiative's submission. The national policy directions should be promptly redeveloped. Councils must be provided with the resources and guidance to transition smoothly to the new system by 2029.

2. **Develop simplified models for community-scale infrastructure.** Not every project requires the complexity of a major roading PPP. Create standardised contracts and streamlined processes for smaller infrastructure projects that can attract private capital at the local level.
3. **Fix local government financing and funding.** Councils should be enabled to issue special purpose infrastructure bonds (a financing mechanism repaid by beneficiaries over time). Revenue sharing should be implemented, returning a portion of growth-generated tax revenue to councils that enable it (a funding mechanism from tax revenues). Together, these tools would give councils both the financing mechanisms to borrow for growth-enabling infrastructure and the funding mechanisms to service those obligations.
4. **Adopt performance-based devolution.** Councils with strong governance and fiscal track records should be given greater decision-making autonomy and access to financing mechanisms. A pathway should be developed for other councils to earn expanded powers as they build capacity.
5. **Establish a formal asset recycling programme.** Non-core Crown commercial assets suitable for sale or long-term lease should be identified. A dedicated fund to reinvest proceeds in public infrastructure should be created. Transparent criteria for asset selection and reinvestment priorities should be published.

- 6. Maintain process integrity in consenting reform.** The Fast-track Approvals Amendment Bill, and any subsequent reforms, should preserve constitutional safeguards and adequate public participation. Speed must not come at the cost of legitimacy.

- 7. Maintain discipline on returns.** Temptation to measure success by dollars spent should be resisted. Infrastructure quality and service outcomes should be tracked and regular assessments comparing New Zealand's infrastructure performance against international benchmarks should be published.

CHAPTER 7

Artificial Intelligence

Artificial intelligence is reshaping economies worldwide. Countries that harness AI effectively will see substantial productivity gains; those that do not will fall further behind.

Microsoft has estimated that generative AI could add \$76 billion to \$108 billion a year by 2038, with the \$76 billion figure framed as a moderate case and \$102 billion as an optimistic case.¹⁴⁸ Realising this potential will require clear regulatory frameworks, investment in human capital, and willingness to embrace technological change.

New Zealand can participate in shaping the impact of AI. Countries that remain passive consumers of AI systems designed elsewhere, by others, for other purposes, cede control over technologies that will increasingly mediate economic and social life. Small nations cannot build frontier AI models, but they can be smart adopters.

The good news is that New Zealand businesses are not waiting for permission. AI adoption rates have surged from 48 percent of businesses in 2023 to between 82 and 87 percent in 2025.¹⁴⁹ The private sector is moving. The question is whether government policy will help or hinder.

New Zealand's belated AI strategy

In July 2025, the Government released “New Zealand’s Strategy for Artificial Intelligence: Investing with Confidence”, making New Zealand the last OECD country to publish a national AI strategy.¹⁵⁰ Singapore released its AI strategy in 2019 and updated it in 2023. Australia, Canada, France, the United Kingdom and the United States all moved years earlier than New Zealand.

Notwithstanding the delay, the strategy’s content is sound. It focuses on AI adoption rather than attempting to develop foundational AI models, a realistic acknowledgment of New Zealand’s scale and capital constraints. The Government’s role, as the strategy puts it, is to “reduce barriers to adoption, provide clear regulatory guidance, build necessary capabilities, and ensure that adoption occurs responsibly.”¹⁵¹

Crucially, the strategy avoids the regulatory overreach that has characterised some overseas approaches. Rather than creating new AI-specific legislation, it applies existing legal frameworks consumer protection, privacy, competition law, to AI contexts. This light-touch approach recognises that technology moves faster than regulation, and that poorly designed rules could stifle innovation without delivering meaningful protection.

The strategy also commits to proactive regulatory guidance. Uncertainty about what is permitted chills investment and experimentation. Clear guidance on how existing rules apply to AI reduces this uncertainty without creating new bureaucratic hurdles. The Government Chief Digital Officer has been tasked with coordinating this guidance across agencies.¹⁵²

The government’s regulatory approach to AI aligns with the Initiative’s long-standing position on regulatory policy more generally. The Initiative has consistently argued that New Zealand should avoid importing regulatory frameworks designed for larger jurisdictions with different risk profiles. The EU’s AI Act, for example, imposes compliance burdens that make sense for a market of 450 million people but would be heavy handed for New Zealand.

Public sector implementation

Government agencies should be themselves significant AI adopters. The Public Service AI Framework, released in January 2025, provides guidance for responsible AI use across the public sector.¹⁵³ The framework emphasises sensible guardrails that will not unduly impede adoption, including transparency, accountability and human oversight.

Implementation data show progress, but from a very low base. A cross-agency AI survey found 272 AI use cases across 70 government agencies in 2025, up from 108 cases across 37 agencies the previous year. Of these, 55 cases are fully operational (deployed at scale and delivering value) compared with just 15 in 2024.¹⁵⁴

By and large, the public sector is bogged down in pre-pilot policy considerations of AI use, including safety and data integrity issues, discouraging public servants from using AI. Where pilots are getting off the ground, they use outdated AI models that leave many public servants unaware of its true capabilities. This means that the business innovation required to integrate AI into the machinery of government is not happening at a sufficient scale. Only few areas have moved beyond pilots to production for niche applications.

Under the framework, high-risk uses (those affecting significant rights or interests) face more stringent requirements than routine productivity tools. This proportionality is appropriate. Treating a chatbot that answers simple queries the same as an algorithm that determines benefit eligibility would be absurd.

The Initiative's research on regulatory stewardship supports this approach. Regulatory intensity should be proportionate to risk. The public sector framework reflects a sensible balance that enables responsible AI adoption without requiring comprehensive new legislation.

It rightly attempts to provide clear guidance by applying existing principles to a new context.

Protecting cognitive capital: AI and education

The Initiative's 2024 report *Welcome to the Machine* argued that, while AI can enhance learning, it can also undermine it, depending on how it is used.¹⁵⁵

The risk is that students may never develop the knowledge and skills they need if AI does cognitive work for them. AI tools that substitute for learning impede students from acquiring the very capabilities they appear to enhance.

Cognitive science research, which underpins the Initiative's analysis, shows that knowledge stored in long-term memory is required for critical thinking. Experts think effectively because they draw on vast stores of organised knowledge in long-term memory, freeing the capacity-limited working memory system for analysis and problem-solving.¹⁵⁶

Students cannot think critically about topics they know nothing about. They cannot evaluate AI outputs without domain knowledge to judge them against. AI cannot substitute for the cognitive architecture that education builds.

Relying on AI as a cognitive prosthesis would prevent students from building the internal knowledge structures they need for sophisticated thought. The biological architecture of expertise requires years of effortful learning to construct. There are no shortcuts.

The implication for policy is that AI should not be allowed to substitute for acquiring fundamental knowledge and skills. It should instead be used as a scaffolding tool, providing feedback, coaching, and support that helps students develop their own capabilities.

Teachers and policymakers need evidence-based guidance to distinguish beneficial AI use from counterproductive shortcuts.

The Government has been cautious on this front. The AI strategy acknowledges workforce implications but does not address the educational risks *Welcome to the Machine* identifies. The Ministry of Education has issued guidance on AI use in schools, but it lacks the cognitive science grounding to make it effective.

Levelling the democratic playing field: AI for local government

AI presents a specific opportunity to local government. Part-time councillors, often juggling council responsibilities with other employment, must scrutinise complex proposals prepared by full-time professional staff. Council agendas routinely run to hundreds of pages of technical material. Councillors lack the time and analytical resources to interrogate this material effectively.

This information asymmetry has consequences for democratic accountability. When councillors cannot effectively scrutinise proposals, they frequently become rubber stamps for staff recommendations. Elected representatives defer to unelected officials not because they necessarily agree, but because they cannot evaluate alternatives.

The Initiative's June 2025 research note, *Smart Support for Councillors*, identified how AI can redress the imbalance.¹⁵⁷ AI tools can generate plain-language summaries of complex documents in seconds. They can flag risks and inconsistencies. They can suggest targeted questions for scrutiny. They can search for alternative perspectives and comparative examples from other councils.

This should enhance rather than replace human judgment. Councillors must remain

responsible for decisions and accountable to their communities. If AI is used judiciously, it can augment their analytical capabilities.

Implementation of this approach would require pilot programmes in selected councils, training for councillors in effective AI use, and clear ethical guidelines for AI in democratic contexts. LGNZ and DIA should work together to develop shared resources that councils can deploy.

The trust gap

Despite strong business adoption rates, New Zealanders' public trust in AI remains low. A 2025 study by KPMG and the University of Melbourne found that only 34 percent of New Zealanders trust AI, and just 44 percent believe the benefits of AI outweigh the risks, the lowest of any country surveyed.¹⁵⁸ The Ipsos AI Monitor 2024 found New Zealand has the second-highest level of nervousness about AI products and services globally, behind only Ireland.¹⁵⁹

Bridging this gap requires honest communication about AI's benefits, risks and limitations. Exaggerated claims breed scepticism. So does dismissing legitimate concerns about job displacement, privacy and bias. The Government's strategy sensibly acknowledges these concerns.

The productivity tail: SME adoption

While New Zealand's larger businesses have embraced AI rapidly (67 percent using some form of AI in 2024, up from 48 percent in 2023), small and medium enterprises lag far behind. A 2024 survey by NZIER and Spark found that only 32 percent of New Zealand's Small and Medium Enterprises (SMEs) have plans to evaluate or invest in AI technology.¹⁶⁰ This compares unfavourably with Australia, where 72 percent of SMEs reported plans to adopt AI.

New Zealand's economy is dominated by small businesses. If AI-driven productivity gains accrue mainly to large firms, the benefits will be concentrated rather than broad-based. The mass of smaller firms that account for most employment will determine whether AI lifts living standards across the economy or widens the gap between leading firms and the rest.

SMEs usually lack in-house expertise to evaluate AI tools, the capital to experiment with implementation, and the time to navigate a rapidly evolving landscape. Addressing these challenges should remain primarily a market function. New startups built from the ground up around AI capabilities may well displace existing SMEs faster than incumbents can adapt. This creative destruction, while disruptive, reflects the market's adaptation to new technologies.

The Government's AI strategy acknowledges the SME adoption lag, but government programmes are unlikely to be effective advisors on AI deployment – business itself is far more knowledgeable on these topics. Instead, government's role should be to ensure that barriers to private advisory services, training, and capital access are minimised.

The infrastructure opportunity

Optimal AI adoption depends on infrastructure. New Zealand could have significant advantages in data centre infrastructure if it can authorise new power generation faster and cheaper than other jurisdictions. At present, structural constraints – particularly energy market constraints put these potential advantages at risk.

The global AI race is increasingly an energy race. Data centres consume enormous amounts of electricity. Hyperscale operators are hunting for locations with cheap, reliable, renewable power. New Zealand generates approximately 85 percent of its electricity from renewable sources.¹⁶¹ Its

temperate climate, particularly in the South Island, reduces cooling costs. Its stable regulatory environment and rule of law appeal to investors making multi-billion-dollar, multi-decade commitments.

The money is arriving. Amazon Web Services is investing NZ\$7.5 billion in its Auckland cloud region.¹⁶² Microsoft launched its first New Zealand cloud region in December 2024, powered entirely by renewable energy.¹⁶³ Domestic and Australian operators are adding billions more. NZTech reports over \$10 billion in new data centre investment flowing into the economy, with 56 operational facilities and 20 more planned or under construction.¹⁶⁴

Data centres currently consume just 0.6 percent of New Zealand's electricity, a fraction of what individual large companies use. But this will grow. Industry projections suggest data centre electricity demand will more than double to 1.8 percent of national consumption by 2030. If New Zealand captures a share of the export market for AI-centric cloud capacity, that figure could reach 2.2 percent.¹⁶⁵

Achieving this potential requires welcoming new electricity generation and ensuring resource consenting systems do not hinder energy projects. The upside potential from supercritical geothermal generation is also very large.

As AI capabilities advance, access to compute power and frontier models may be increasingly restricted, particularly by major powers. On-shore compute capacity is a strategic asset – arguably as valuable to national autonomy as domestic fuel supplies. Ensuring sovereign access to computing resources capable of running frontier AI models requires both investment in data centre capacity and energy independence. This adds national security weight to the case for rapid energy market reform.

The Ultra-Fast Broadband programme has delivered fibre to 87 percent of New Zealand's

population.¹⁶⁶ The Rural Broadband Initiative and Rural Connectivity Group are extending coverage to smaller communities, with more than 400,000 rural premises now connected to improved broadband. Over 1,800 remote kilometres of state highways now enjoy mobile coverage.¹⁶⁷ The Marae Digital Connectivity Programme is connecting marae to fibre, addressing a significant gap.¹⁶⁸

Rural and remote communities still face patchy connectivity, though fixed wireless access and satellite services like Starlink are increasingly filling gaps where fibre is uneconomic. Submarine cable investments, including Southern Cross NEXT, Hawaiiiki, and the proposed Tasman Ring Network, are enhancing bandwidth and reducing latency, which is critical for cloud services and AI applications.¹⁶⁹ But reliance on a limited number of cables creates resilience risk. A single cable failure could disrupt services significantly.

Investment and capability building

The Government has committed to several targeted investments. A \$71 million Advanced Technology Science Platform at the Robinson Research Institute will develop high-tech exports based on cryogenics, superconductors and related technologies.¹⁷⁰ A \$12 million joint programme with Singapore focuses on AI for healthy ageing.¹⁷¹ The Marsden and Catalyst research funds have designated AI as a priority area.

The Government has announced a New Zealand Institute for Advanced Technology with \$70 million over seven years for AI research and commercialisation.¹⁷² These investments are modest relative to those that peer countries are deploying.

Recent reforms to the Active Investor Plus Visa, effective from April 2025, provide pathways for experienced investors in AI and technology

sectors.¹⁷³ Attracting global talent and capital requires competitive visa settings. New Zealand cannot develop AI capabilities in isolation.

What remains unresolved

The Government's AI strategy represents a sound first step. The light-touch regulatory approach is enabling. However, public sector implementation is not progressing fast enough to keep up with the pace of technological change, advancement of AI models (both their capabilities and potential applications) and the required business innovation and integration. This significantly hampers public sector productivity and its potential future relevance, including the future employability of public servants both inside and outside of the public sector.

There are five areas in which further policy attention is required:

1. The educational risks identified in the Initiative's research have not been addressed. The Ministry of Education (MOE) lacks a framework grounded in cognitive science to guide AI use in schools. Students risk becoming dependent on AI tools before they have built the knowledge base they need to use them effectively, and without compromising their own cognitive development.
2. There is an opportunity for local government to use AI to enhance democratic accountability. Providing councillors with AI tools would help them scrutinise staff proposals and mitigate the information asymmetry between elected councillors and unelected officials that undermines local democracy.
3. SME adoption lags, except for niche applications. The productivity benefits of AI will concentrate in large firms unless small businesses at the frontier of AI disrupt the status quo.

4. Energy market constraints threaten to choke off data centre investment. The Frontier Economics review identified serious structural problems. Without reform, New Zealand will lose its competitive advantage in attracting AI infrastructure.
5. Public trust remains low. The gap between business adoption and public confidence creates political risk for future policy. Low trust is perpetuated by central and local government institutions adapting at a very slow rate and actively dissuading employees from integrating AI into their workflows. Government makes up a large proportion of New Zealand's economy, so this has significant nation-wide productivity implications.
2. **Protect cognitive capital.** The Ministry of Education should implement frameworks ensuring AI serves as a scaffolding tool for learning and not impede students from acquiring disciplinary knowledge. Teacher professional development should address effective AI integration grounded in cognitive science. The goal is to build knowledge in students' long-term memories, as a basis for critical thinking.
3. **Level the democratic playing field.** DIA with LGNZ should fund pilot programmes providing AI analytical tools to councillors. Their effectiveness should be evaluated and shared resources developed for wider deployment. The goal is to restore the balance between elected representatives and professional staff, strengthening democratic oversight of local government.

Recommendations

The incoming government should:

1. **Maintain regulatory agnosticism.** Pressure for comprehensive AI-specific legislation should be resisted. Instead, existing legal frameworks, amended where necessary to address specific gaps, should be used. Regulatory intensity should be proportionate to risk. New Zealand's light-touch approach is a competitive advantage.
4. **Fix the energy handbrake.** Data centre investment depends on reliable, competitively priced electricity. Consenting for both generation projects and data centres should be streamlined.
5. **Bridge the trust gap.** Government communications should be honest about both the benefits and limitations of AI. Public confidence should be built through transparency about how government agencies use AI.

CENTRAL AND LOCAL GOVERNMENT

CHAPTER 8

Constitutional and Electoral Reform

New Zealand's constitutional arrangements have developed tensions that compromise government functioning. In late 2023, when the Luxon government came to power, the MMP electoral system was approaching its thirtieth year. Over those three decades, structural flaws in the system comprising Parliament and state agencies have become increasingly apparent. The executive branch has grown to an unwieldy size complicating coordination and diffusing accountability. Parliament struggles to scrutinise legislation effectively within truncated three-year terms. Moreover, questions have emerged regarding the appropriate boundary between judicial interpretation and parliamentary intent.

These concerns affect governments' ability to implement their mandates, voters' entitlement to representation, and the proper functioning of the checks and balances on which democratic governance depends.

The Initiative has undertaken substantial research on these questions since 2020. Key publications include *MMP After 30 Years: Time for Electoral Reform?* (2025), *Unscrambling Government: Less Confusion, More Efficiency* (2025), *Cabinet Congestion: The Growth of a Ministerial Maze* (2024), *Who Makes the Law? Reining in the Supreme Court* (2024), and *Democracy in the Dark* (2020).¹⁷⁴

Thirty years of MMP: progress and remaining flaws

New Zealand adopted MMP in 1996 following a referendum born of frustration with the failure of the First Past the Post system to deliver representative governments. One issue was that,

in 1978 and 1981, governments were returned to power despite receiving fewer total votes than the opposition. Another was that minor parties often received no seats, or very few, despite winning substantial vote shares. For example, in 1981, the Social Credit Party won 21% of votes but only two seats. MMP promised to address both problems through proportional representation: parties would receive seats in close proportion to their vote shares.

Three decades on, MMP has delivered on its core promise. Coalition governments now reflect the preferences of a majority of voters. Minor parties have a genuine path to representation. Even so, MMP has also developed problems that were not anticipated, or that have worsened over time.

One such problem is 'overhang.' This occurs when a party wins more electorate seats than its party vote share would warrant, increasing the total number of seats in Parliament and distorting its proportionality. Another is that special vote counting often delays the formation of governments by several weeks. This comes on top of delays associated with coalition negotiations. A third problem is that parties with less than five percent of the party vote still go unrepresented in Parliament unless they win in at least one electorate.

The 2023 election illustrated all these problems. A record three 'overhang' seats inflated Parliament to 123 members. Te Pāti Māori won six electorate seats on a party vote that entitled it to only four and National's victory in the Port Waikato byelection gave it one overhang seat. The final result took three weeks to deliver, with a record 600,000 special votes putting the Electoral Commission under intense pressure.¹⁷⁵

Overhang seats remain unaddressed

The Initiative has recommended increasing the ratio of list MPs to electorate MPs, to reduce the likelihood of overhang seats.¹⁷⁶ The government has not acted on this recommendation.

Overhang seats remain a feature of the system, meaning Parliament's size continues to vary unpredictably from election to election.

Parliament's size is too small

Parliament's size is itself a problem.

New Zealand's 120-seat Parliament is small by international standards, and the country is an outlier among comparable democracies. Political scientists have long observed that legislature size tends to follow the "cube root rule": the number of legislators approximates the cube root of the population. For New Zealand's population of five million, this implies a parliament of around 170 members.

Peer countries bear this out. Norway, with a similar population, has 169 MPs. Ireland has 174. Denmark has 179. Finland has 200. New Zealand's Parliament is not just smaller than these comparators; it is substantially smaller relative to population than almost any other developed democracy.

A small parliament creates several problems. First, it limits the pool of talent available for both the executive and select committees. With 28 ministers drawn from 123 MPs, the ratio of backbenchers to executive members is unhealthily low. Select committees struggle to find enough qualified members to conduct effective scrutiny.

Second, population growth since 1996 means electorates have become larger in population, with each electorate MP now representing around 72,000 people – up from 52,000 in 1996. It also means large electorates geographically, with many rural and provincial MPs covering vast territories, creating challenges for meaningful constituent contact.

Third, and critically for MMP reform, the current 60:40 split between electorate and list seats leaves insufficient room for the proportional top-up that makes MMP work. If overhang seats are abolished, parties winning more electorates than their party vote justifies would simply fill those seats without additional list compensation. This is fairer than the current system, but it requires a larger pool of list seats to ensure proportionality is maintained in normal circumstances.

The Initiative's research recommends shifting to a 50:50 split between electorate and list MPs.¹⁷⁷ This would substantially reduce overhang risk while giving parties greater flexibility to bring talent into Parliament through their lists. But implementing a 50:50 split within the current 120-seat Parliament would require reducing electorates from 72 to 60, making each electorate's geographic area and population unacceptably large.

The solution is to expand Parliament to 170 members. This would allow a 50:50 split with 85 electorates and 85 list seats, maintaining reasonable electorate sizes while providing the proportional buffer MMP requires. The cost would be modest and could be offset by consolidating the bloated executive. A Parliament of 170 MPs with 15 Cabinet ministers would have a far healthier ratio of scrutineers to scrutinised than today's arrangement.

Government action on special votes

Under the government's 2025 Electoral Amendment Bill, voter enrolment will close 13 days before future election days, ending the same-day enrolment introduced in 2020 that contributed to special vote volumes.¹⁷⁸ This follows the Initiative's recommendation in *MMP After 30 Years* for modernising special vote processing to enable faster declaration of results.¹⁷⁹

The reform is welcome but partial. Faster processing of remaining special votes should also be a priority.

The five percent threshold

In 2012, an Electoral Commission review recommended lowering the party vote threshold to four percent.¹⁸⁰ The Initiative's research supports going further, to 3.5 percent. The argument against abolishing the threshold altogether is that it would risk excessive parliamentary 'fragmentation,' meaning many parties in Parliament, each with very small numbers of seats. A lower threshold would improve the proportionality of Parliament while still mitigating fragmentation. Most countries with thresholds of 3–4 percent have not experienced the instability that defenders of the five percent threshold predict.

The government has not signalled any intention to act on the party vote threshold.

Waka-jumping provisions

The Electoral Integrity Act empowers party leaders to expel MPs from Parliament if they leave their party or vote against its position on legislation. The Initiative argues that the Act is based on a misunderstanding of representative democracy. MPs are elected to represent voters, not parties. The waka-jumping provisions should be repealed to restore MP accountability to constituents and principles rather than party hierarchies.¹⁸¹

The government has not moved to repeal these provisions, nor signalled any intention to do so.

The case for four-year terms

New Zealand's parliamentary term is unusually brief, at three years. Amongst Westminster democracies, only Australia's lower house matches it. The United Kingdom has five-year terms, Canada has four-year terms.

Brief parliamentary terms create several problems. Ministers spend a disproportionate share of their tenures in election mode rather

than governing. Complex policy reform requires sustained attention to gain traction, and three-year terms risk legislation either being rushed or never being brought to the house in the first place. The public service faces constant uncertainty about priorities. Select committees lack time to conduct thorough inquiries.

The Initiative's report, *MMP After 30 Years*, recommends extending the term to four years and strengthening Parliament's scrutiny functions to compensate for the reduced frequency of accountability to voters.¹⁸² Select committees are the primary mechanism for parliamentary oversight of the executive. But their effectiveness depends on having sufficient non-executive MPs to staff them, and genuine independence from the executive. Standing Orders could be amended to require that opposition parties chair committees examining government policy. Select committee staff could be expanded to provide independent research capacity. In fact, these reforms would strengthen scrutiny regardless of whether the term were extended.

Government action on four-year terms

The Luxon government introduced legislation enabling a referendum on four-year terms.¹⁸³ The Term of Parliament (Enabling 4-year Term) Legislation Amendment Bill takes an innovative approach: it makes a four-year term conditional on meeting a "proportionality requirement" for select committees, ensuring that non-government parties hold more select committee seats than government parties. This approach aligns with the Initiative's emphasis on enhanced accountability mechanisms accompanying any term extension, but the Bill's approach was complex and confusing.

The government decided not to proceed with a referendum on a four-year term at the upcoming general election.

Executive structure and accountability

New Zealand's executive government has grown to a size that complicates effective administration. By 2023, twenty-eight ministers held 81 portfolios across 43 departments. This represents 44 percent more ministers and nearly triple the portfolio count of nations with comparable populations.

The Initiative's *Cabinet Congestion* (2024) documented how this growth occurred.¹⁸⁴ Each government finds reasons to create new portfolios. Ministers accumulate responsibilities without shedding old ones. Political incentives have driven the expansion. Prime ministers use portfolios to reward their supporters and manage coalition relationships. Bureaucratic incentives create resistance to reduction: no minister willingly surrenders territory, and no department volunteers for abolition.

Unscrambling Government (2025) developed the analysis further.¹⁸⁵ The proliferation of portfolios creates coordination problems that consume ministerial time without improving outcomes. Housing policy, for example, sits at an intersection of the urban development, infrastructure, building, construction, and local government portfolios. Aligning six ministers and their departments is a substantial undertaking. Often it simply does not happen.

Multiple portfolios also diffuse accountability. When something goes wrong, ministers can point fingers at each other. The public cannot easily identify who is responsible for what. This may sometimes suit politicians but it ill-serves democratic accountability. More pragmatically, multiple ministers with responsibility for a single policy domain can leave policy development inefficient and poorly coordinated.

Education provides an illustrative example. During part of the current Parliamentary term, this policy had four ministers, from two different

parties, with two ministers inside cabinet, and two outside. The responsibilities of these four ministers were essentially aligned with different sectors of the education system.

Erica Stanford is the Minister of Education and is responsible for schools and early childhood education (ECE), although David Seymour as an associate minister has responsibility for charter schools and ECE regulation and funding reviews. Until early 2025, Penny Simmonds was Minister of Tertiary Education, but this portfolio was split following a cabinet reshuffle. Shane Reti became Minister of Universities, while Simmonds retained responsibility for other tertiary education and training.

A result of this division of responsibilities has been that policy areas like industry training, which falls across more than one education sector (secondary and tertiary), can suffer from poor coordination. Policies might be developed that work well for secondary schools but not tertiary providers, and vice versa. If junior ministers all reported to a single minister inside cabinet, there would be room for the policy workload to be distributed, while maintaining a single point of coordination and accountability.

Unscrambling Government recommends consolidating the current 81 portfolios into roughly 15 to 20 coherent policy domains, reducing departments from 43 to approximately 20, and capping Cabinet at 15 ministers.¹⁸⁶ This would match New Zealand's executive structure to that of comparable countries and restore clear lines of accountability.

International experience shows such reforms are achievable. Australia implemented precisely such changes in 1987, when the Hawke government consolidated its departments from 27 to 17 and restructured the ministry to place Cabinet ministers in charge of major policy domains supported by junior ministers outside Cabinet. Ireland's Constitution caps Cabinet at 15 ministers.¹⁸⁷

Consolidation would require a statutory tier of junior ministers, like Australia, Ireland and the United Kingdom. Junior ministers would handle specific responsibilities within broader portfolios without cluttering Cabinet. The senior minister would remain accountable, but workload could be distributed more sensibly, and policy development would be more coordinated.

The Luxon government has not acted to consolidate ministerial portfolios nor reduce departments. The 81-portfolio, 43-department structure inherited in late 2023 remains intact.

Post-election, the consolidation of ministerial portfolios should happen immediately. The consolidation of departments, however, need not happen overnight. *Unscrambling Government* outlines a 12–24 month pathway for restructuring departments and portfolios following an election. A determined government could achieve meaningful consolidation within a single term.

Parliamentary procedure and the use of urgency

The purpose of parliamentary procedure is to ensure that legislation receives proper scrutiny before becoming law. Bills are introduced and then referred to select committees which consider submissions from the public and recommend amendments. The process necessarily takes time.

Urgency was designed to enable governments to truncate parliamentary procedure when genuine emergencies like natural disasters, financial crises, and pandemic responses require immediate legislative response. However, governments can invoke urgency at will, and there has been an increasing tendency for them to do so without obvious justification. This undermines democratic accountability and legislative quality.

Mandatory sunset provisions should apply to legislation passed under urgency.

Recent practice

The current government passed 19 bills with all stages under urgency in its first 100 days, more than any government in New Zealand history.¹⁸⁸ In late 2025, Parliament sat under urgency and passed a bill skipping the select committee stage entirely, meaning there was no public input on legislation affecting all New Zealanders.¹⁸⁹

The contrast with the previous government is instructive. The 2017–2023 Labour-led government used urgency extensively during the COVID-19 pandemic, when genuine emergency circumstances existed. Border closures, lockdown powers, and vaccine mandates required rapid legislative response. This was urgency used as intended.

Henry VIII clauses

Equally concerning is the proliferation of ‘Henry VIII’ clauses in recent legislation. These provisions allow ministers to amend Acts of Parliament through regulation, without full parliamentary scrutiny.¹⁹⁰ The Fast-track Approvals Amendment Bill introduced in late 2025 contains such clauses. These constitute a transfer of legislative power from Parliament to the executive that sits uncomfortably with New Zealand’s constitutional separation of powers.

The case for reform

The normalisation of urgency undermines Parliament’s constitutional function. Select committee scrutiny enables flaws in legislation to be identified before they become law and affected parties to have their concerns heard. It acts as a check on hasty ministerial decisions.

Reform requires both formal rule changes and a cultural shift. Standing Orders should limit urgency to genuine emergencies and require sunset provisions. Henry VIII clauses should be restricted to technical matters and be time limited. But rules alone will not suffice. Governments must accept that democratic

accountability sometimes requires accepting delays they would prefer to avoid.

Judicial overreach, parliamentary sovereignty and the rule of law

Some recent decisions from New Zealand’s Supreme Court have sparked widespread alarm. They show that the court has misunderstood its role and overstepped its bounds.

At the heart of New Zealand’s legal system is a delicate balance of powers between the three branches of government: Parliament, the courts and the executive. This balance is anchored in the separation of powers. Under New Zealand’s constitutional order, Parliament is sovereign – it sits above the Supreme Court. The courts’ role is twofold: to interpret and apply the laws Parliament enacts, and to review the exercise of statutory power by the executive to ensure it remains within the bounds Parliament has set. It has no role in creating or modifying laws.

The Initiative’s 2024 report *Who Makes the Law? Reining in the Supreme Court* analysed two ways in which the Court has overreached and set out legislative options for Parliament to rein in the Court’s activist tendencies.¹⁹¹ Subsequent writing has discussed a third.¹⁹²

First, the Court has adopted a loose approach to interpreting laws passed by Parliament – stretching or even ignoring clear statutory language it does not like, effectively granting itself the power to rewrite legislation. Common law presumptions – once applied only to resolve genuine ambiguity – have been used by the Court to override clear statutory language in the name of rights or values it considers fundamental.

Decisions illustrating this are accumulating. In *Fitzgerald v R* [2021] NZSC 131, the Court rewrote Parliament’s three-strikes sentencing legislation under the guise of Bill of Rights

interpretation. In *Edwards (No 1) – Whakatōhea Kotahitanga Waka (Edwards) v Ngāti Ira O Waioweka* [2024] NZSC 164, it read tikanga into a statutory test from which Parliament had deliberately excluded it. In *Attorney-General v Family First New Zealand* [2022] NZSC 80, it abandoned established charities law in favour of “contemporary values.”

Second, the Court has changed how it handles the ‘common law’ – a body of rules judges have developed over centuries. It has progressively abandoned the traditional approach of gradually adjusting the common law to fix mistakes or handle novel situations. Instead, it favours a radical new approach, reshaping common law rules to match its views of today’s social values – a function that belongs to Parliament, not the courts. *Ellis v R (Continuance)* [2022] NZSC 114 is the high-water mark, described by Emeritus Professor Peter Watts KC as “revolutionary.”

Third, the Court has expanded the reach of judicial review, arrogating to itself the power to strike down ministerial decisions for failing to consider matters Parliament never contemplated under what the Court calls a ‘mandatory relevant considerations doctrine.’ Traditionally, the doctrine allowed courts to add requirements they regard as “obviously” implicit. But the Court has converted this narrow safeguard into a standing warrant for judicial intervention. The most recent example is *Climate Clinic Aotearoa Inc v Minister of Energy and Resources* [2025] NZSC 197. The Court imposed a climate change assessment obligation on petroleum-permitting decisions despite Parliament’s silence on the matter.

Judicial overreach has serious consequences. It undermines the law’s democratic legitimacy and makes it less predictable. When the law becomes unclear or uncertain, individuals and businesses cannot rely on it to guide their actions. This can paralyse decision-making and undermine confidence in the legal system. Judicial overreach also politicises courts, erodes public trust in

judicial impartiality, and shifts responsibility from elected decision-makers – answerable to Parliament and voters – to unelected judges.

Successive governments have expressed concern about judicial overreach but have not taken action to prevent it.

Parliament has specific legislative tools to address all three issues. Where courts have clearly departed from Parliament’s intent, targeted legislation can restore it, as the Government’s response to decisions under the Marine and Coastal Area Act demonstrated. The looseness of the Court’s interpretive approach could be constrained by amending the Legislation Act 2019 to make clear that ‘context’ means ‘context at enactment’ rather than ‘evolving contemporary values’, and that common law presumptions are tie-breakers in cases of genuine ambiguity, not trump cards that can override clearly-written legislation.

A further Legislation Act amendment should prevent courts from adding mandatory requirements to the executive’s exercise of statutory powers that Parliament never imposed. It should confine the mandatory relevant considerations doctrine to what the statute expressly or necessarily requires. Section 6 of the Bill of Rights Act – which the Court has used to rewrite legislation it dislikes – should be amended or repealed. Instead, the Attorney-General’s section 7 screening (requiring the Attorney-General to report to Parliament where a Bill appears to be inconsistent with Bill of Rights) should apply to every Bill before enactment, with the original justification for section 6 largely superseded. A rule-of-law definition in the Senior Courts Act 2016, adopting a “thin” conception that forecloses the Court’s use of the rule of law as a mandate for activism, would reinforce all of these measures.

Finally, reforms to judicial appointment processes – including criteria emphasising respect for parliamentary sovereignty and fixed non-renewable terms for Supreme Court justices

– would help guard against judges inflating their institutional roles.

Recommendations

The incoming government should:

- 1. Reintroduce legislation to enable a referendum for a four-year term of Parliament.** Implementation should come with amendments to Parliament’s Standing Orders for enhanced select committee powers to maintain accountability and party representation on committees proportionate to their non-executive members.
- 2. Increase the proportion of list MPs from 40 percent to 50 percent and increase Parliament from 120 to 170 members.** Together these changes would reduce the incidence of overhang seats. A larger Parliament would also improve voter accessibility and representation, provide more backbenchers for select committee scrutiny, and strengthen the ratio of non-executive to executive members
- 3. Reduce the party vote threshold to 3.5 percent,** as recommended by the 2023 Independent Review of the Electoral System.
- 4. Modernise special vote processing to enable faster declaration of results.** Administrative improvements additional to the Electoral Amendment Act should aim to declare final results within one week of election day.
- 5. Repeal the waka-jumping provisions of the Electoral Integrity Act.** MPs should be accountable to constituents and principles rather than party hierarchies. Most established Westminster democracies rely on political rather than legal enforcement of party discipline.

6. **Consolidate ministerial portfolios from 81 to 15-20 coherent policy domains.** This should occur over a two-year transition period following an election, following the pathway outlined in *Unscrambling Government*.
7. **Reduce Cabinet to 15 ministers supported by a statutory tier of junior ministers.** Junior ministers would handle specific responsibilities within broader portfolios to distribute workload more sensibly. Senior ministers would retain accountability.
8. **Consolidate government departments from 43 to approximately 20.** Departmental boundaries should align with consolidated portfolio domains, reducing coordination failures and clarifying accountability.
9. **Amend Standing Orders to restrict urgency to genuine emergencies.** Urgency should require demonstration of immediate threat to public safety or similar emergency circumstances. Mandatory sunset provisions should apply to legislation passed under urgency.
10. **Limit Henry VIII clauses to technical matters with sunset provisions.** Provisions allowing ministers to amend Acts through regulation should be confined to genuine technical adjustments and should expire within defined timeframes.
11. **Enact targeted legislation to reverse aberrant court decisions.** Parliament should systematically review decisions where courts have departed from legislative intent and pass clarifying amendments to restore that intent.
12. **Add a rule of law definition to the Senior Courts Act 2016.** The definition should adopt a “thin” conception - emphasising clarity, stability and equal application - that forecloses use of the rule of law as a mandate for judicial activism or common law development beyond established principle.
13. **Amend the Legislation Act 2019 to constrain interpretive overreach.** Section 10 should make clear that ‘context’ means ‘context at enactment’ rather than ‘evolving contemporary values,’ and that common law presumptions are tie-breakers in cases of genuine ambiguity, not trump cards that can override clearly-written legislation.
14. **Amend or repeal section 6 of the New Zealand Bill of Rights Act 1990.** Section 6 should be clarified to prevent courts adopting unreasonable interpretations of statutory language; Parliament should also consider outright repeal given that section 7 screening now fulfils its original protective function.
15. **Amend the Legislation Act 2019 to constrain the mandatory relevant considerations doctrine.** Parliament should provide that a consideration is mandatory in judicial review only where the statute expressly requires it or it is necessarily implicit in the statutory text.
16. **Reform judicial appointment processes.** Criteria for senior appellate appointments should include demonstrated respect for parliamentary sovereignty; Parliament should also adopt fixed non-renewable terms for Supreme Court justices.

CHAPTER 9

Public Service Reform

In the six years to 2023, the core public service grew rapidly in headcount and cost. Yet public confidence in its performance fell. Outcomes did not match the resources invested in education, health, housing or law and order.

The Luxon government promised to “get back to basics” and restore value for money. On one level, it has done that. It has launched a Fiscal Savings Programme, introduced a Public Service Amendment Bill, set public targets and created a Ministry for Regulation to limit regulatory burdens imposed by new legislation.

A deeper structural problem is that the Public Service Act 2020 cemented a model in which the Public Service Commissioner stands between elected ministers and the leadership of departments.¹⁹³ Moreover, New Zealand has one of the most fragmented executive structures in the developed world, with 81 portfolios, 28 ministers and 43 departments.¹⁹⁴

It is an open secret in Wellington that the post-2023 reform agenda met a public service that was less than enthusiastic about delivering it. Ministers struggled to translate their ideas into practice; the officials responsible for implementation were not always willing or able to deliver. Politicians cannot admit they lack control of the public service without looking weak; bureaucrats cannot admit to frustrating an elected government without breaching the neutrality they are supposed to embody.

Recent Initiative reports – particularly *Demystifying the State* and *Unscrambling Government* – argue that the combination of centralised control and structural sprawl makes good government harder than it needs to be.^{195 196}

The problem is both the size of the state and the way it is arranged.

Since 2023, the government has reduced the public service headcount by approximately 2,100 and wound back the use of contractors and consultants.¹⁹⁷ But fundamental questions about accountability, structure and democratic control remain unresolved. The Public Service Amendment Bill reinforces rather than reforms the Commissioner’s central role. The ministerial and departmental maze identified in “Unscrambling Government” persists.¹⁹⁸

The Public Service Act and its aftermath

The Public Service Act 2020 replaced the State Sector Act 1988. Under the old law, the state sector had an explicit duty to promote the collective interests of government. Chief executives were employed on fixed-term contracts and were clearly accountable to their ministers.

The new Act had a different philosophy. It gave the Commissioner a broad leadership mandate over the public service and weakened the direct link between ministers and departmental chief executives. The Commissioner became the de facto employer of departmental leaders, with responsibility for their promotion and career progression.

The 2023 edition of *Prescription for Prosperity* warned that the Act drove a wedge between democratically elected ministers and the bureaucracy meant to serve them. It lacked a clear statement that the purpose of the public service is to assist the democratically elected government with policy development and implementation.

Those concerns have not been resolved.

The Public Service Amendment Bill introduced in July 2025 leaves in place the core constitutional choice made in 2020.¹⁹⁹ It aims to “lift the performance of the public service” and “get back to basics” by clarifying the Act’s purpose and strengthening expectations for delivery. But it also gives the Commissioner wider oversight of integrity, conduct and appointment processes. Thereby, it reinforces the central role of the Commissioner.

Ministers set policy, but the Commissioner, who appoints the leaders of the agencies charged with delivering that policy, is an unelected statutory officer. This arrangement privileges institutional continuity over democratic accountability.

The scale of the gap is not theoretical. OECD data compiled by the European Parliament shows New Zealand has the lowest ratio of senior officials to ministers of any country surveyed: just eight, compared with Sweden’s 19, Germany’s 106, the United Kingdom’s 169 and the United States’ 531. New Zealand gives its elected ministers the smallest leadership cadre of any developed democracy. Combined with portfolio fragmentation – a Treasury review in 2024 found MBIE alone administers 233 separate appropriations across 23 portfolios, reporting to twenty different ministers – the structural result is that nobody is clearly in charge of anything.

Ministers can indicate matters the Commissioner should take into account, suggest panel members and be consulted. But the Commissioner chairs the interview panel and makes the decision. Ministers receive the outcome, not the choice. If a chief executive proves incompetent, insubordinate or ideologically misaligned with the government’s objectives, the minister cannot remove them. The chief executive serves a five-year term. The government must wait, lobby the Commissioner or swallow the arrangement.

Demystifying the State, published by the Initiative in 2024, develops this argument in depth.²⁰⁰ It shows how diffuse responsibility in the state apparatus undermines effective administration. When incentives are misaligned, when information flows poorly, and when accountability is unclear, even capable and well-motivated officials struggle to deliver. The Public Service Act 2020 contributed to these conditions by interposing the Commissioner between ministers and departments.

New Zealand academics Chris Eichbaum and Richard Shaw have given this pattern a name. Their typology distinguishes formal politicisation (Cabinet’s role in appointments) and administrative politicisation (ministerial advisers) from the most consequential form: functional politicisation, which emerges from within the bureaucracy itself. It is the tendency of officials to develop their own policy preferences and pursue them regardless of the government of the day – not because officials carry party cards, but because institutional cultures, recruitment patterns and professional networks produce a worldview that treats certain policy directions as obviously correct and others as retrograde. Eichbaum and Shaw observe that politicisation is now “bubbling up from within departments and agencies.” When a government’s agenda conflicts with the institutional worldview, the system does not rebel openly. It simply fails to perform.²⁰¹

Right-sizing without rethinking

In 2023, The Initiative recommended that the incoming government review the expansion of the core public service since 2017. The expansion had been dramatic: between 2017 and 2023, public service headcount grew 34 percent,²⁰² but did not deliver proportionate growth in value.

In early 2024, the Luxon government launched a Fiscal Savings Programme. Almost forty departments were told to identify baseline

savings of 6.5 or 7.5 percent, with the higher figure applying where staff numbers had grown by more than half since 2017. The savings would help fund tax relief.

Public Service Commission data show that FTEs peaked at 65,699 in December 2023 and dropped to 62,654 by June 2025, a reduction of over 3,000 roles as redundancies and vacancy caps took effect. Core Crown personnel expenditure, which had risen from \$7.8 billion in 2019 to \$11.3 billion in 2024, declined marginally to \$11.2 billion in 2025 - the first annual fall in the series. Yet the reductions have already begun to reverse. By December 2025, headcount had crept back up to 63,657, suggesting structural reform is required to prevent the public service from gravitating toward expansion over time.²⁰³

The way the cuts were made revealed the limitations of across-the-board savings drives. Decisions were often rushed. Some agencies removed vacant or lower-paid roles whilst retaining highly paid central positions. There were claims of lost capacity in back-office functions that supply the data and analysis needed for good policy and implementation.²⁰⁴

Demystifying the State warned against seeing the state as a monolithic machine that can be shrunk with a single lever. Rather, it is “hundreds of workplaces employing tens of thousands of people”, each with its own constraints.²⁰⁵ Simply cutting budgets does not change the incentives that produced the previous growth in the first place. Nor does it address whether the right functions are being performed by the right organisations.

The government (slightly) reduced size without fundamentally rethinking structure. There was no comprehensive review assessing which roles added value and which did not, nor any public disclosure of the rationale for specific reductions. The approach was tactical rather than strategic.

A related structural failing remained untouched: the “generic manager” model embedded in New Zealand practice since 1988. The idea that management is a transferable skill, with chief executives rotating between various departments, has produced officials who know how to manage processes but lack deep policy knowledge. Three years into the job, planning to move on in two, still learning the basic geography of the portfolio: when a minister wants advice rooted in long experience, the chief executive often cannot provide it.²⁰⁶

An Initiative policy analysis published in 2025 estimated that returning public service headcount to 2017 levels would save approximately \$1.6 billion annually.²⁰⁷ Combined with other fiscal measures, such reforms could yield more than \$11 billion in sustainable savings. These figures demonstrate the fiscal consequence of expansion without justification.

The case for systematic review extends beyond fiscal efficiency. The expansion since 2017 coincided with declining outcomes in core government services. Educational achievement continued on a long downward trajectory. Health system performance deteriorated. Law and order metrics worsened. In some cases, organisational growth actively eroded capability by diffusing expertise across managerial positions rather than concentrating it in substantive roles.²⁰⁸

Broader reform - from size to structure

The 2023 *Prescription for Prosperity* recommended reform of New Zealand’s hybrid Westminster model to improve democratic control. Those themes have since been elaborated in several Initiative reports and submissions. One of these themes – rationalising the numbers of ministers, portfolios, and departments – was addressed in Chapter 8.

Giving Parliament the tools to scrutinise

The Initiative's submission on the Inquiry into Performance Reporting and Public Accountability stressed that Parliament lacks independent analytical capacity to test value for money in spending and regulation.²⁰⁹ The submission called for a new Parliamentary Spending and Regulatory Review Office – an in-house, non-partisan analytical capacity for the legislature.

Such a body would not replace existing officers such as the Auditor-General or the Parliamentary Commissioner for the Environment. It would complement them by providing real-time, contestable analysis of major fiscal and regulatory initiatives. It would enable legislators to avoid delay and policy drift caused by inefficient, inaccurate or ideologically motivated advice from agencies.

This recommendation addresses a fundamental asymmetry. The executive controls the public service, which employs thousands of policy analysts. Parliament has select committees but limited independent analytical capacity. When ministers propose major spending or regulatory changes, Parliament must rely primarily on departmental briefings or hire external consultants. A dedicated parliamentary office would improve balance.

From spending to outcomes

New Zealand will spend nearly \$190 billion in the 2025-26 year. Yet Budget 2025 – all 700 pages of it – is not a performance report.²¹⁰ It records how much government is spending, not what it is accomplishing. It measures dollars appropriated, not lives improved.

This is not a new problem, and it has received some policy attention. The Key Government's Better Public Services programme set ten measurable cross-agency targets and all showed improvement.²¹¹ But this programme ended when the Ardern government came to power.

The current Government has taken a welcome step by reinstating outcome targets across health, education and other domains.²¹² The test is whether this approach survives the next change of government.

The underlying problem is that agencies are funded for outputs, not outcomes. Ministers and officials are rewarded – or penalised – for developing budgets and initiating activities, not for whether those things make a difference. Targets set by one government can be abandoned by the next because nothing in law requires them.

The FEC's current inquiry into performance reporting and public accountability is an opportunity to change this.²¹³ As the Initiative has argued, amending the Public Finance Act and Crown Entities Act to embed better outcome reporting in Budget documents and agency accountability statements would be a practical first step.²¹⁴

Ministerial appointments and independent advisers

The 2023 *Prescription for Prosperity* recommended permitting an incoming government to directly appoint senior civil servants in their departments. New Zealand's prohibition on ministerial involvement in appointing departmental chief executives is unusual among Westminster systems. Other democracies allow incoming governments to appoint senior officials to strategic positions, ensuring alignment between democratic mandate and administrative execution.

Since 2023, the Luxon government has introduced the Public Service Amendment Bill, which makes incremental improvements. It removes automatic reappointment of chief executives and strengthens ministerial involvement in performance reviews. But the Bill leaves the current architecture intact. The Commissioner retains appointment power.

Ministers still cannot choose their own departmental heads. Bureaucracy remains insulated from democratic direction when governments change.

Allowing ministers to appoint senior officials in key departments need not Americanise the public service. Three comparators, described in *Who runs the country?*, frame the choice.

The preferred model is Germany. Ministers appoint a small tier of “political civil servants” (State Secretaries and a handful of senior officials) who openly advocate for the government’s agenda. Beneath them sits a rigorously qualified career service with permanent tenure. Joining the two is a statutory duty to object: career officials must raise legality and propriety concerns through defined escalation steps, and they cannot be dismissed for doing so. Three principles work together: political alignment at the apex, career protection below, and the duty to object as the hinge between them. The number of political appointees is small (around 150 federal posts), bounded by qualification requirements, reviewable by administrative courts, and published. Germany delivers both democratic accountability and institutional expertise without collapsing into patronage.

The fallback is Australia, where the Prime Minister can dismiss department secretaries and the Public Service Commission sits within the Prime Minister and Cabinet portfolio rather than above ministers as an independent authority. Adopting elements of this approach would restore democratic control while remaining consistent with New Zealand’s Westminster tradition. But Australia’s experience – most starkly the Robodebt scandal – shows the cost of appointment power without supporting infrastructure: without a duty to object, statutory career protections and qualification requirements, political control can collapse into complicity rather than accountability.

The United States is the cautionary anti-model. Wholesale politicisation — thousands of appointees turning over with each administration — is unsuitable for a small country with a thin senior cadre. Sam Freedman’s analysis of the British Maude reforms shows what happens to a Westminster system without German-style guardrails: permanent secretary tenure collapsed from 6.8 years to 2.4, officials became fearful, and performance deteriorated. Political control without architecture produces dysfunction.

The lesson is that New Zealand should adopt the German principles (political alignment, career protection, duty to object) without necessarily replicating the German architecture in a single step. Officials below the most senior level would retain permanency and independence. The leadership would change with the government, ensuring that policy direction comes from elected representatives.

The 2023 *Prescription for Prosperity* also recommended expanding the role of advisers independent of the public service to increase access to fresh thinking. This addresses a related problem: ministers currently rely almost entirely on departmental advice, with limited access to alternative perspectives. Independent advisers would provide ministers with analysis that can challenge departmental orthodoxy. The Luxon government has made no formal moves to expand ministerial access to independent advice.

Fixing the democratic void in local government

The Initiative’s 2024 report *Making Local Government Work: Improving Democratic Oversight*, diagnoses a “democratic void” at council level, whereby mayors and councillors often lack the tools to direct the organisations they nominally lead, leaving those organisations under the control of unelected officials.²¹⁵

The report recommended a mix of “strong mayor” powers, Auckland-style mayoral offices

(where the mayor's office has its own budget and staff, accountable to the mayor rather than to the council CEO), and greater use of direct democracy. For example, local referenda could be used to seek the mandate of affected communities to levy special rates to pay for major projects. The aim is to ensure that elected representatives and voters, not officials, set direction, and councillors are accountable for outcomes.

This localist agenda is relevant to central government reform in two ways. First, it reveals accountability problems for both local and central government. At both levels, unelected officials often delay or subvert the implementation of the policies that councillors and parliamentarians are elected to enact, with elected representatives lacking the authority to direct them. Second, it suggests that genuine devolution requires strong local governance.

The 2023 *Prescription for Prosperity* recommended devolving local and regional decisions currently made by central government departments, to bodies with local democratic accountability. These bodies would control regional budgets for transport, resource management, economic development and social infrastructure. Central government would set broad policy parameters and provide funding, but local and regional bodies would determine priorities and implementation.

Under this model, decision-makers would be closer to the communities affected, improving alignment between policy and local needs. Democratic accountability would be strengthened by voters being enabled to directly assess regional performance. Wellington's ministerial and departmental congestion would be alleviated by focusing central government on national rather than local functions.

Recommendations

The incoming government should:

- 1. Amend the Public Service Act 2020 to restore democratic primacy.** The Act should state that the purpose of the public service is to assist the democratically elected government. The Commissioner's primary function should be to ensure the public service executes the government's policies.
- 2. Reinstate a modern contracting model for departmental chief executives.** Chief executives should be appointed on fixed-term contracts with clear performance expectations agreed with their responsible ministers. Renewal should depend on delivery.
- 3. Conduct a comprehensive review of public service size and function.** The review should assess value delivered by the post-2017 expansion, recommend optimal staffing levels, and be conducted by officials insulated from departmental self-interest.
- 4. Consolidate portfolios and departments.** The Government should reduce the number of ministerial portfolios and departments over time, moving toward around twenty natural ministries.
- 5. Create a Parliamentary Spending and Regulatory Review Office.** Parliament should establish an independent office to provide non-partisan analysis of major spending and regulatory proposals, and of departmental performance.
- 6. Adopt ministerial appointments of departmental chief executives.** Ministers should appoint from a qualified pool vetted by an independent appointments commission. This would align administrative leadership with democratic mandates while maintaining competence.

7. **Expand the role of advisers independent of the public service.** Ministers should have access to independent policy advice outside departmental channels, providing alternative perspectives that can challenge departmental orthodoxy.
8. **Statutorily define which posts are political.** Parliament should list by statute the small, published set of posts ministers may appoint. Officials outside this tier should be secure against arbitrary removal.
9. **Impose qualification requirements on political appointments.** Appointees must demonstrate competence in the relevant policy area.
10. **Enact a statutory duty to object.** Career officials should be required to raise legality and propriety concerns through defined channels, with protections for those who do so.
11. **Protect the career service by statute.** Officials below the political tier should be secure against arbitrary removal, with superannuation portability and other protections to support long-term career commitment.
12. **Relocate the Public Service Commission within the Prime Minister's department.** The Commission should sit within the Prime Minister and Cabinet Office to strengthen the connection between political direction and administrative execution.
13. **Publish all political appointments.** Names, qualifications, dates and the responsible minister should be public record.
14. **Strengthen local democratic oversight.** Central government's localism agenda should be aligned with strong-mayor models, empowered mayoral offices and greater use of ratepayer referendums.
15. **Devolve functions to local and regional bodies with genuine authority.** Appropriate functions should be transferred from central government with dedicated budgets and real decision-making power.
16. **Amend the Public Finance Act and Crown Entities Act to require reporting on outcomes.** Budget documents and agency reports should measure results, not just spending.

CHAPTER 10

Local Government

Local government in New Zealand confronts two interconnected challenges. First, council debt has doubled from 2017 to 2024, standing at \$29.9 billion in 2023/24, while operating expenses also increased strongly to \$18.1 billion.²¹⁶ Second, elected representatives lack sufficient authority to implement their mandates, creating a “democratic void.”²¹⁷ These challenges must be addressed simultaneously.

In March 2025, S&P Global Ratings downgraded 18 councils, citing increased unfunded mandates and policy volatility.²¹⁸ Meanwhile, many ratepayers are experiencing annual increases well in excess of inflation (and in many cases in double digits), while infrastructure deteriorates and services decline. The Auditor-General has noted that councils risk becoming “asset-rich but service-poor,” maintaining balance sheets while struggling to meet community needs.²¹⁹

International experience suggests that appropriately empowered local government can contribute to prosperity. Swiss cantons compete to attract residents and investment through innovative policies. German municipalities receive 15 percent of Federal income tax revenue collected in their municipality, creating incentives to promote economic growth.²²⁰ New Zealand’s highly centralised system has produced councils that approach growth cautiously because they bear its costs, while central government captures the tax benefits.

The Luxon government has responded to these pressures with the most significant local government reforms since 1989. In late 2025, ministers announced plans to abolish elected regional councillors, and to replace them with Combined Territories Boards of mayors. They

also announced an intention to cap annual rates increases at somewhere between two and four percent.²²¹ These announcements followed the Local Government (System Improvements) Amendment Bill, which seeks to refocus councils on core services.

The government’s ambition is welcome, although the reforms themselves are not recommended by The Initiative. The government speaks of localism while proposing that Wellington-appointed regulators control council revenue. It promises to empower mayors while contemplating Crown commissioners with veto powers on regional boards. It demands fiscal discipline while maintaining unfunded mandates and rejecting revenue-sharing that would align incentives with outcomes. We remain hopeful, however, that some revenue-sharing mechanisms may turn up in Budget 2026.

This chapter presents an alternative approach based on extensive Initiative research and international best practice. Effective reform requires mutually reinforcing elements: funding incentives that reward growth, strengthened democratic accountability, frameworks for local innovation, appropriate constraints on rates growth, and sensible regional coordination. Each element depends on the others. Revenue-sharing without accountability risks inefficiency. Accountability without resources does not drive delivery. Centralised controls, however well-intentioned, cannot substitute for genuine localism.

Sharing the benefits from growth

A structural challenge in the relationship between New Zealand’s central government

and its local bodies is that councils bear the costs of growth – infrastructure, congestion, environmental pressures – while central government captures the benefits through GST, income tax, and company tax. This has serious implications, as outlined in the Initiative’s 2015 report *Local Formula*.²²²

For example, when a council approves a new housing development, it must fund roads, pipes, and community facilities. The resulting economic activity generates substantial GST revenue, which flows entirely to Wellington. Local Government New Zealand (LGNZ) calculates that sharing 50 percent of this GST could have funded councils’ entire rates increases for 2023-24.²²³ Yet councils receive no direct share, creating disincentives for development approval.

Another example is tourism, which generates \$1.8 billion annually in GST. Yet, when the government increased the International Visitor Levy to \$100 in October 2024, all the resulting revenue remained centralised.²²⁴ Auckland Council’s proposal for a local accommodation levy to manage visitor impact has been in limbo.²²⁵ Similarly, extractive industries generate royalties for central government while local communities and authorities must manage the environmental and infrastructure consequences.

The incoming government should consider implementing universal revenue-sharing based on three principles:

Housing growth incentives. Revenue equivalent to a portion of GST from new residential construction should be shared with the councils that approve it. The Initiative’s 2024 research note *Revenue Share for Housing* proposes combining base payments with bonuses for above-average consenting, creating structured incentives that are difficult to manipulate.²²⁶

Resources. Mineral royalties should be shared with the communities in whose areas they are extracted.

Communities bearing the costs of development can reasonably expect a share of its benefits.

Funded mandates. Establish a principle that central government requirements include funding for implementation. Current practice, imposing costs on councils in response to constant changes to the RMA and associated national directions, as well as those relating to three waters, earthquake prone buildings, warrant reconsideration.²²⁷

In Germany, municipalities receive guaranteed shares of income tax, value added tax (VAT), and local business taxes. This encourages competition between municipalities to attract residents and businesses, promoting innovation and efficiency.²²⁸ New Zealand’s unitary state differs from Germany’s federal system, but similar outcomes might be achieved through appropriately designed revenue-sharing mechanisms. They should be considered if councils were to take on a larger role in a more devolved structure.

Restoring democratic accountability

Financial incentives alone would be insufficient. Local government’s governance challenges must also be addressed. Currently, elected mayors and councillors often discover officials are unwilling to implement the proposals on which they were elected. Significant operational authority rests with unelected chief executives who control operations, information, and agenda-setting.²²⁹

The Carterton case illustrates the tension between democracy and bureaucracy. A councillor elected on fiscal responsibility was excluded from budget deliberations after staff determined her campaign promises constituted a “conflict of interest.”²³⁰ The councillor’s democratic mandate was used as grounds to deny her the participation in the process through which it could have been implemented.

When officials with limited accountability control both information and implementation, new revenue can be used to fund discretionary projects while core infrastructure needs remain unaddressed.²³¹

The incoming government should consider implementing structural reforms to strengthen democratic oversight:

- **Executive leadership models.** The North Rhine-Westphalia approach, whereby elected mayors serve as chief executives should be adopted. This arrangement reduces divided authority while maintaining professional administration.²³²
- **Independent advisory capacity.** Elected leaders need analytical resources independent of the permanent bureaucracy. Without such capacity, mayors remain dependent on the officials they nominally oversee.²³³ The Auckland mayoral office already has such a capacity. It should be extended to all local councils.
- **Direct democracy mechanisms.** Requiring referendum approval for projects exceeding defined thresholds (for instance, 5 percent of operating budgets or \$500 per resident) could provide communities with greater control over significant decisions.²³⁴
- **Information access.** Granting elected members enhanced powers to request information from officials is essential. Enabling bureaucrats to deny elected officers the information they need to implement the policies on which they were elected is anti-democratic. At present, journalists using Official Information Act requests sometimes receive more comprehensive data than councillors responsible for governance.²³⁵
- **Clarified oversight roles.** Councils would benefit from clarification that they are empowered to directly oversee operational matters. Excluding councils from ‘operations’ on the grounds that they are responsible only for ‘governance’ is, again, antidemocratic. The distinction may work for many organisations,

but for local government it is misguided and hands too much power to unelected officials.²³⁶

These reforms need not undermine professional administration. Elected representatives should be accountable only to voters, never the bureaucracy. The bureaucracy should provide advice and then implement the elected council’s decisions. Rather, they could restore an appropriate balance between democratic authority and bureaucratic expertise. The government’s draft Standardised Code of Conduct reinforces rather than addresses problems with many individual councils’ codes of conduct, which unduly muzzle debate and free expression. It must protect democratic expression rather than constrain it.²³⁷

Democratic accountability ultimately depends on citizen engagement. Local election turnout has been declining. In 2025 it slipped below 40 percent.²³⁸ The current postal voting system, managed by individual councils, is unfamiliar to many voters and is open to abuse. Transferring responsibility to the Electoral Commission would professionalise the conduct of local elections. Adopting in-person voting would increase confidence in the legitimacy of results. Electronic voting could be considered as a future development, to modernise participation methods. Should the government proceed with four-year parliamentary terms, aligning local elections with this cycle warrants consideration.

Enabling innovation through local trials

The principle that different approaches suit different communities has gained political traction. Two models have recently been tried.

The government’s Special Economic Zone (SEZ) proposal for Marsden Point represents a targeted approach to industry policy, whereby centrally-selected sites receive specific regulatory and tax concessions.²³⁹ This approach involves central government “picking winners,” which is seldom effective.

The government has also progressed City Deals aimed at progressing infrastructure works that central government considers a priority.

Neither is what the Initiative had in mind for SEZs when it promoted them in its 2015 report, *In the Zone*.²⁴⁰

A better model has emerged from the Otago Regional Council's proposal for a 'regulatory sandbox' to trial alternative consenting and resource management approaches.²⁴¹ This is a bottom-up approach whereby councils identify local solutions to local challenges. It represents a very different philosophy to that underpinning SEZs. The incoming government should enable all councils to establish such sandboxes, rather than limiting them to selected areas.

In the Zone suggests a similar framework.

Councils, in consultation with their communities, would identify aspects of central government policy or regulation that were not fit for local purpose. They, in consultation with Treasury, would propose locally-specific rules as a policy trial.

If the trial were successful, central government would enjoy higher tax revenue, lower costs, or a combination. Those gains could be shared with the originating council. And the policy package could extend to other communities that would benefit. If the trial failed, it would fail at small scale rather than national-scale.

Councils might trial risk-based environmental regulation (considering *probability* and *severity* rather than just *possibility* of harm). International building standards, streamlined consenting for straightforward developments, and fully digital regulatory processes are other possibilities for trialling. Outcomes must be tested, enabling successful innovations to be made available to councils, and unsuccessful ones to be abandoned.

The government's Regional Deals framework has potential but retains too much power in Wellington as it is currently formulated. Rather than Wellington selecting regions and negotiating terms, all councils could have access to a standard menu of devolved powers – or propose others. This would transform deals from centralised coordination mechanisms into genuine partnerships.

Innovation requires appropriate accountability. All trials should include evaluation frameworks and be adaptable when new information or unforeseen problems emerge. The FMA's 2025 fintech sandbox demonstrates that controlled innovation is feasible.²⁴² Local government could benefit from similar opportunities.

In April 2026 the Luxon government and the Auckland Council announced a City Deal, the first of its kind.²⁴³ It is more an evolution of existing initiatives linking infrastructure investments and spatial planning than the more ambitious approach the Initiative has advocated.

The Deal creates a structured relationship between central government and Auckland where none existed before. It brings regulatory reform and better financing tools to bear on Auckland's growth challenges. However, it does not address the fundamental incentive problem in local government funding, it does not devolve powers, and it does not give Auckland a genuine financial stake in its own growth. Rather than being a basis for a new system, the Auckland Deal is a bespoke arrangement for one city. It leaves the set-up between central and local government fundamentally unchanged.

Rates capping: a blunt instrument

In December 2025, the government announced plans to cap annual rates increases somewhere in the range of two-to-four percent by July 2029.²⁴⁴ This policy responds to genuine and

understandable ratepayer frustration: rates have increased 34 percent since 2022, far outpacing inflation, and in the 2025 local elections, 14 of 18 mayors presiding over councils that had imposed double-digit increases lost office.²⁴⁵

Regulatory rate caps are not the answer. Councils cannot always control their expenditure sufficiently both to obey the caps within their debt limits and to maintain infrastructure and provide essential services. Rates caps will encourage councils to defer maintenance, cut core services, or shift costs to fees and charges that fall outside the cap. International experience verifies this. New South Wales has capped rates since 1977, yet the state's Independent Pricing and Regulatory Tribunal found 63 percent of councils were not fiscally fit for the future.²⁴⁶ Per capita capital expenditure runs 55 percent below other Australian states, and infrastructure backlogs continue to grow.²⁴⁷ Victoria introduced rate capping in 2016. As a result, the Victorian Auditor-General projects that infrastructure deficits will grow from \$225 million in 2012 to \$2.6 billion by 2026.²⁴⁸

The proposed New Zealand model compounds these problems. Councils seeking to exceed the cap would have to apply to a central government regulator, giving Wellington control over local spending decisions. This contradicts the government's stated commitment to localism. It also creates a perverse incentive for councils to front-load increases before the cap takes effect, and to seek variations so routinely that the cap becomes meaningless.

There is a better alternative. Rather than imposing bureaucratic controls from Wellington, the government could empower ratepayers directly through binding referenda. Under a "Ratepayer Bill of Rights", councils could increase rates beyond regulated limits only with explicit ratepayer approval. Major discretionary projects exceeding defined thresholds would similarly require referendum endorsement.

Switzerland has demonstrated the effectiveness of this approach. Municipalities with mandatory fiscal referenda have 19 percent lower spending than comparable jurisdictions because councillors must make credible cases for projects they cannot implement without voter support.²⁴⁹ The discipline is democratic rather than bureaucratic.

The Tauranga Museum project illustrates the need for such mechanisms. It proceeded despite significant community opposition, with costs escalating far beyond original estimates.²⁵⁰ Had ratepayers possessed referendum rights, the council would have needed to secure their consent before committing public funds. The current system enables councils to commit to expensive projects on the basis of only a general mandate to govern and then claim they cannot reverse course on the basis of a sunk-cost fallacy.

At the same time, referenda of affected ratepayers can protect councillors if ratepayers later regret their decision.

The government's rates cap substitutes Wellington regulators for local democratic accountability. A Ratepayer Bill of Rights would place control with the ratepayers who fund council activities, where it belongs.

Regional council reform: forced amalgamation dressed as localism

In May 2026, the Government abandoned the Combined Territories Board model proposed six months earlier and replaced it with something more ambitious.²⁵¹ Under the new 'Head Start' pathway, groups of two or more territorial authorities will have until August 2026 to submit outline proposals for amalgamation into larger unitary authorities. Councils that fail to submit credible proposals face a government-imposed backstop process. Regional councillors will not be elected at the 2028 local body elections. The government describes this as locally

driven reform. A three-month deadline backed by compulsion is not locally driven in any meaningful sense.

The shift from CTBs to outright amalgamation has sharpened but not altered the Initiative's core objection: the government has put form before function. It is redesigning the governance architecture of regional government without first determining which functions belong at which level. A principled reform would start with subsidiarity, allocating each public function to the lowest level of government consistent with effective delivery. Functions involving cross-boundary effects, common-pool resources or coordination problems that cannot be managed locally justify regional treatment. Everything else should sit closer to citizens. The 90-day deadline makes this worse, not better. Councils cannot design sensible unitary authorities in three months when nobody has done the functional allocation work first.

The government's five assessment criteria for proposals, deliverability, planning system alignment, simplification, economies of scale and strong local voice, embed untested assumptions about size. The Infrastructure Commission has found no evidence that larger councils are more efficient.²⁵² The 2010 Auckland Super City amalgamation remains the closest precedent for the structural consolidation now being encouraged elsewhere, yet no formal evaluation of its outcomes has been published, despite the Royal Commission on Auckland Governance calling for a review after ten years. Pushing other regions toward consolidation without having tested whether the most prominent example worked is poor policy. Auckland should be included in the reform framework, and the long-overdue post-implementation review should be completed and published before regional reorganisation plans are finalised.

Regional councils emerged from 1989 reforms that replaced some 453 special-purpose authorities,

catchment boards, pest destruction boards, river boards, land drainage boards, with 11 regional bodies and 67 territorial authorities.²⁵³ The consolidation created entities that few citizens engage with or understand. Turnout for regional council elections trails even the low participation in territorial elections. The government's claim that most New Zealanders cannot name their regional councillors is almost certainly accurate.

Yet the functions remain necessary. The government has confirmed that flood protection, emergency management, biosecurity and public transport will stay with local government regardless of structure. If those functions persist, the question is how they should be governed, not whether they should be bundled into a single large body or left with a board of mayors managing the same portfolio.

The better alternative is disaggregation. Rather than maintaining one large regional council or replacing it with an amalgamated unitary authority handling diverse functions, regional reorganisation plans could propose specific agencies for specific purposes. A flood board for managing river levels and stop-banks, a catchment authority for water quality and allocation, a transport board for regional coordination. These bodies need not follow existing regional boundaries: a flood board should follow a river catchment, while a transport board should serve a functional economic area.

Having single unitary councils covering regions or sub-regions would result in very large, geographically dispersed areas and diverse communities with functions that are inherently local, such as local amenities and community services. There will still be a need for these issues to be dealt with locally, by locally elected representatives. If a unitary approach is to be adopted, such councils would need to have community boards or local boards with stronger powers than those of current boards.

Accountability should be strengthened through direct fiscal consent. If a proposed project benefited a particular set of properties, the relevant board could propose an annual levy on those properties, subject to approval by the affected owners. On endorsement, local councils would set the targeted rates and provide proceeds to the relevant authority. New Zealand used ratepayer ballots extensively before the 1989 reforms to authorise local works funded by special levies. The principle applies naturally to any new special-purpose bodies: if a body is not directly elected, the people who pay for its decisions should have a direct say in authorising them.

The Government's backstop process raises separate concerns. Where councils do not submit Head Start proposals, the Government will impose transitional governance arrangements, potentially including a board of mayors or Crown-appointed commissioners with veto or majority voting power. Broad ministerial powers to approve, amend or override reorganisation plans without local consent concentrate structural power in a single decision-maker. These arrangements sit uneasily with any commitment to localism.

The consultation document's earlier rejection of referendums as "costly and slow" with "low voter turnout" was internally inconsistent, and the inconsistency has not been resolved. Low participation rates cannot delegitimise referendums while simultaneously delegitimising the elections through which mayors receive their mandates. If turnout is the standard, neither institution passes. A preference for the status quo is not a defect in a democratic process; it reflects a reasonable demand that those proposing major structural change bear the burden of persuasion.

Implementation considerations

The five elements of localism and subsidiarity considered here – revenue-sharing, democratic

accountability, regulatory innovation, rates discipline, and regional coordination – are interdependent. Revenue-sharing without accountability risks inefficiency. Accountability without resources may prove ineffective. Innovation with the wrong incentives could encourage unproductive competition. Centralised controls on rates or regional governance, however well-intentioned, cannot deliver the benefits of genuine localism.

The political foundations for reform are in place. Prime Minister Luxon has expressed support for localism following his participation in Initiative-organised visits to Switzerland and Denmark.²⁵⁴ Housing Minister Chris Bishop advocates for councils being "financially motivated to support development."²⁵⁵ The coalition agreement references GST-sharing considerations.²⁵⁶ The challenge lies in translating these principles into comprehensive reform.

The incoming government should pursue genuine localism that empowers communities, aligns incentives, and strengthens accountability.

Recommendations

The incoming government should:

- 1. Share GST from Growth.** A portion of estimated GST from new residential construction, potentially with performance-based adjustments for above-average consenting activity, should be shared with authorising councils.
- 2. Enable Local Revenue.** Options for sharing resource royalties with host communities should be explored.
- 3. Fund Mandates.** A principle that new requirements should include adequate funding, potentially with review mechanisms for existing unfunded mandates, should be adopted.

4. **Strengthen Executive Authority.** Provide mayors with appropriate authority to implement their mandates, supported by independent advisory resources.
5. **Require Democratic Approval:** Mandate referendum approval for projects exceeding defined thresholds, with only those who are compelled to pay eligible to participate.
6. **Protect Democratic Rights.** Strengthen elected members' access to information, thereby improving their ability to represent constituents effectively.
7. **Enable Regulatory Sandboxes:** Empower councils to establish regulatory trials across planning, building, environmental, and business regulation domains.
8. **Transform Regional Deals.** Adopt universal frameworks accessible to all councils rather than selective, ad hoc arrangements.
9. **Apply Subsidiarity Principles:** Ensure decisions are made at the lowest level of government that can offer efficient delivery.
10. **Modernise Local Democracy:** Transfer responsibility for local elections to the Electoral Commission.
11. **Reject regulatory rate caps in favour of ratepayer referenda.** Abandon the current proposal for rates caps. Instead, establish a Ratepayer Bill of Rights that requires referendum approval for rates increases exceeding inflation plus population growth, and for discretionary projects exceeding defined cost thresholds.
12. **Maintain local revenue-raising autonomy.** Ensure any rates policy preserves councils' ability to fund essential infrastructure and respond to local circumstances. Wellington-imposed constraints should not require regulatory approval for councils to address infrastructure deficits or respond to natural disasters.
13. **Enable special-purpose authorities.** If local government reform proceeds, targeted agencies for specific regional functions should be able to be implemented.
14. **Require democratic approval for regional levies.** Require approval from affected property owners when regional or other bodies propose levies on properties to fund specific projects.
15. **Resist forced amalgamation.** Ensure 'Head Start' reorganisation proposals are genuinely locally driven rather than vehicles for Wellington-mandated consolidation. The principle of subsidiarity of function should guide decisions about council numbers and boundaries. Ensure genuinely local activities can continue to be undertaken at a local level through, for example, strengthened local boards or community boards.

SOCIAL POLICY

CHAPTER 11

School Education

New Zealand's school education system is undergoing its most significant reform since Tomorrow's Schools in 1989. After decades of social-constructivist experimentation and an associated decline in learning, the Luxon government introduced wide ranging measures to strengthen the education system, led by Education Minister Erica Stanford. These include:

- Mandating structured literacy
- Commissioning a knowledge-rich curriculum
- Replacing NCEA
- Strengthening trades and industry training at secondary level
- Reintroducing charter schools
- Enabling reform in teacher training

These changes draw on years of New Zealand Initiative research.

If New Zealand is to fully realise the potential of recent policy reform and turn around its educational decline, the foundation established during the first term of the Luxon government must be built upon. This must include resources for implementing the policy that has already been developed. It will also require further policy development in key areas.

Structured literacy

Based on decades of research in cognitive psycholinguistics, structured literacy is the most effective known method of teaching children to read and write. It commences with explicitly and systematically teaching children the regular correspondence between spelling and sound (phonics). The New Zealand Initiative has long advocated for the adoption of structured literacy

in New Zealand's schools, most especially in Steen Videbeck's 2021 report, *Reading with the Light Switched On*.²⁵⁷

Under the Ardern government, tentative measures were taken to implement structured literacy in schools, but it was not made mandatory. One of the first acts of Erica Stanford as Minister was to mandate the use of structured literacy in all primary schools. Implementation of the policy was well supported. Professional development in structured literacy has now reached almost all primary schools. During 2025, successful completion of phonics checks by new entrants after 20 weeks at school rose from 36 percent in Term 1, to 58 percent in Term 3.²⁵⁸

The next step is to ensure that training in structured literacy is part of all initial teacher education programmes. This should be part of a wider programme of reform in teacher training (see *Teacher quality* below).

Curriculum reform

Since 2007, New Zealand's school curriculum has been based on a social-constructivist philosophy, under which teachers guide students to seek knowledge for themselves rather than teaching it explicitly. Consequently, the 2007 curriculum specifies very little knowledge. Instead, it foregrounds 'competencies' such as *relating to others* and *managing self*. This has left schools largely to decide for themselves what knowledge to teach.

During this period, New Zealand has continued to decline in international measures of school achievement such as PISA,²⁵⁹ both relative

to other countries and in absolute terms. Socioeconomic-based gaps also increased during this period, with New Zealand now having one of the least equitable school systems in the developed world.

In 2020 The New Zealand Initiative published *New Zealand's Education Delusion*.²⁶⁰ It recommended the adoption of a knowledge-rich curriculum and explicit teaching in all schools. The recommendation was picked up by Erica Stanford when she became Opposition Spokesperson for Education and implemented when she became Minister.

During 2024 and 2025, at the instruction of Minister Stanford, the Ministry of Education developed a new, knowledge-rich curriculum for all subjects to be taught in Years 1–10. The Year 11–13 curriculum is being developed during 2026. The full curriculum is scheduled to be gazetted from 2027. It represents a fundamental shift in educational philosophy, replacing competency frameworks with carefully selected and sequenced knowledge and practices.²⁶¹

Successful implementation of the knowledge-rich curriculum will require an associated shift in teaching practice. The social constructivist approach is inefficient at best and will not work with a knowledge-rich curriculum, under which a far greater amount of knowledge must be taught. Instead, a knowledge-rich curriculum requires an explicit teaching approach. Because most teachers have not been trained to use explicit teaching, substantial professional development will be required to ensure the new curriculum is implemented with fidelity.

School Qualifications Reform

In August 2025, Minister Stanford announced that NCEA would be abolished and replaced. The Initiative has long documented NCEA's failures. Its report *Spoiled by Choice* by

Briar Lipson argues that excessive choice allows students to avoid challenging learning and assessment while still acquiring qualifications.²⁶²

The complexity of NCEA – with thousands of assessment standards across multiple levels – made it nearly impossible for parents, employers or tertiary institutions to interpret student achievement. Grade inflation has rendered NCEA credentials increasingly meaningless, with 'Excellence' endorsements proliferating even as learning declined.

The replacement system, which is still being designed, will continue to comprise a mix of coursework and exam-based assessment for each subject. However, unlike NCEA, all students in each subject will undertake the same assessments. Results will be reported at the subject level, rather than taking the piecemeal approach to reporting under NCEA. It will include industry-led (vocational) subjects, which will have fully developed curricula for the first time in New Zealand's educational history.²⁶³ The new system will continue to use a criterion referenced approach rather than norm-referencing, meaning that students will be graded according to their performance against set criteria, rather than relative to one another.

An important question will be how to ensure national consistency in the marking and grading of internal assessment. Under NCEA, an expensive *post hoc* moderation system has failed to deliver consistent grading across the country. The new system will either have to use a more rigorous moderation approach – at commensurately greater expense – or require all assessments to be marked and graded by NZQA-convened panels. The latter would likely be less expensive and to yield much greater consistency, while also removing an unnecessary and unproductive component of teachers' workloads.

The intention to implement industry-led subjects is welcome. It will contribute to establishing

vocational education on par with academic education and breaking the culture of poor esteem for trades and industry training that has prevailed in New Zealand for decades. However, schools will need substantial additional resourcing to implement these subjects successfully. Most schools are neither staffed nor resourced to deliver high-quality vocational education.

In the lead-up to the 2026 Budget, the Luxon government announced an intention to repurpose the money currently spent on the ‘fees-free’ year of study for university and other tertiary students for industry and trades training. While details of repurposing are yet to be announced, the money should be redeployed to provide additional school funding for the implementation of industry-led subjects. Schools should be able to spend that money on additional staff or on dual enrolments for their students at tertiary institutions. Both the cessation of the fees-free year and redeployment of its funding follow a recommendation from the Initiative in its 2025 report, *Trade Routes*.²⁶⁴ The fees-free policy has failed to lift university enrolments for students from socioeconomically disadvantaged communities as intended and will be much more effectively spent on strengthening vocational education, especially at secondary level.

Teacher quality

No curriculum reform succeeds without teachers capable of delivering it. New Zealand faces twin challenges: attracting sufficient teachers to the profession, and ensuring those teachers possess the knowledge and skills their students need.

On quantity, the government has made primary teaching a Green List occupation, enabling faster immigration pathways.²⁶⁵ Budget 2025 provided \$124 million for Learning Support, including 380 additional specialist positions.²⁶⁶ These measures address immediate shortages but not factors limiting the attractiveness of the profession.

On quality, the constraints are structural. Teachers’ collective agreement pay scale rewards time spent in the profession, not effectiveness. The Initiative’s 2023 report, *Who Teaches the Teachers*,²⁶⁷ proposed a four-tier career structure for teachers. Teachers would have to meet specific professional criteria to advance a tier. The top two tiers would carry responsibility for training new teachers in the classroom.

Who Teaches the Teachers lays out multiple interlocking problems in initial teacher education. The university model of teacher training, which holds a near monopoly in New Zealand, focuses on ideology over effective practice. Teacher trainees spend too little time on practicum in schools, and their in-school supervision is of variable quality.

Teachers’ professional standards lack rigour. This lies at the core of the poor-quality teacher training offered by universities. Graduating teachers must meet the Standards for the Teaching Profession to become professionally registered. More rigorous Standards would provide incentives for initial teacher education to improve, because graduates could not be registered without meeting them.

Since *Who Teaches the Teachers* was published, Minister Stanford has made some moves to improve initial teacher education. The main funding mechanism is the School Onsite Training Programme (SOTP). The 2024 budget gave a substantial boost to SOTP, funding 1,200 places over four years.²⁶⁸ Trainees are placed in a school for a full school year, for at least three days per week, under experienced mentor teachers. They receive a stipend, mitigating the impost on incomes for mid-career professionals who wish to move into teaching. Host schools also receive a portion of the funding. Several universities have responded to this funding, adapting their programmes to align with SOTP requirements. A new non-university provider – The Teachers’ Institute – has also been established in response to the initiative.

Minister Stanford has removed the Teaching Council's powers to set standards for teacher training programmes and established a standard setting function in the Ministry of Education.²⁶⁹ While this might provide an immediate mechanism to address shortcomings in the standards, longer term, it risks political seesawing as successive Ministers exert influence through the Ministry.

Ideally the Standards should be under professional rather than political control. But the Teaching Council has shown itself to be an ineffective steward of the standards. In *Who Teaches the Teachers*, the Initiative recommended enabling multiple standard setting bodies to be established and measuring and publishing the aggregate effectiveness of teachers registered under the standards set by each body. While this would be a longer-term approach, it would avoid the risk of politicisation that comes with placing the standards under Ministry control.

School accountability

Parents have a right to know how their children's schools perform. Taxpayers funding the system deserve evidence of effectiveness. Teachers and principals in successful schools deserve recognition. Students in failing schools deserve intervention. The government has access to sophisticated tools for measuring school performance. Yet accountability for New Zealand's schools remains weak.

Effective school accountability requires three components: valid and reliable measures of school performance; a modelling approach that is fair to schools; and a mechanism to intervene when a school has failed.

New Zealand's main approach to monitoring and reporting on school quality is an evaluation system run by the Education Review Office (ERO).²⁷⁰ Most schools are evaluated every three

years, although higher-performing schools may be reviewed less frequently. Until recently, ERO reports have been high-level and lacked sufficient focus on student achievement. From Term 2, 2026, ERO reports will include greater focus on achievement and be presented in a clearer and more accessible format.²⁷¹

ERO's improved evaluation and reporting approach should continue to contribute to school accountability. There is, however, also a need for a more frequent, less labour-intensive component, focusing solely on educational achievement. One impediment to this has been lack of consistency in assessment.

At primary level, schools have used a variety of assessment tools to monitor students' achievement and progress in literacy and mathematics, and there has been no consistent approach to analysing data. At secondary level, variability in assessment programmes for NCEA make achievement rates unreliable metrics of school performance.

Recent developments will address both issues. From 2026, the Student Monitoring, Assessment and Reporting Tool (SMART) replaced (e-asTTle) as the Ministry's preferred approach to assessing literacy and mathematics. It is freely available to schools. Schools are now required to assess and report on students' achievement in literacy and mathematics twice per year. When the new qualification system is introduced in 2029, secondary schools will also have a much more consistent metric of student achievement.

A complication for using assessment data as metrics of school performance is variation in the socioeconomic circumstances of school communities. Socioeconomic variables are correlated with educational achievement, so any approach that does not take into account socioeconomic variation is unfair to schools serving disadvantaged communities.

Fortunately, the New Zealand Initiative has provided a sophisticated means of accounting for socioeconomic variation in the analysis of achievement data. The Initiative's 2019 report, *In Fairness to our Schools*²⁷² used individual-level socioeconomic variables from the integrated database infrastructure²⁷³ with logistic regression modelling to compare secondary schools for completion of NCEA Level 2.

The variables included in the model were essentially the same as those used in the Equity Index, a statistical model used by the Ministry to allocate additional funding to schools, proportionate to their locations on the Index. Importantly, when variance attributable to these factors was accounted for, there was no systematic variation in the likelihood of NCEA Level 2 achievement across schools serving different socio-economic strata. The same approach could be adapted to any other assessment outcome.

A related point is that, for the purpose of school accountability analyses, measures of students' progress over time are stronger than point-in-time measures of achievement. Students come into schools with widely distributed prior achievement. Therefore, the value added by a school – the progress students make after commencing at that school – is a more accurate reflection of its performance than their absolute levels of attainment.

Section 171 of The Education and Training Act²⁷⁴ specifies the conditions under which the Ministry or Minister may intervene in the running of a school. Included amongst these conditions are “reasonable grounds for concern about the operation of the school or the welfare or educational performance of its students.” Typically, intervention occurs at the request of a school board, or on the recommendation of ERO.

In the case of a failing school, remedies range from a Ministerial appointment to its board to the dissolution and replacement of the board with a commissioner. There is no direct mechanism to replace the principal.

Typically, failing schools are allowed to continue to fail for much too long. In part, this is due to inadequate means of systematically identifying failing schools. Additionally, however, the provisions in the Act do not provide strong enough levers to turn failing schools around. One approach would be to enable the boards and principals of successful schools to take over the governance and management of failing ones.

Recommendations

The incoming government should:

- 1. Include proficiency in structured literacy pedagogy (primary teaching) and science-of-learning-informed pedagogy (all teaching) in the Standards for the Teaching Profession**, to embed these elements in initial teacher education programmes
- 2. Mandate NZQA to mark and grade all assessments for the new school qualifications system**, to save money, improve the consistency of results, and remove an unnecessary burden from teachers' workloads.
- 3. Implement a four-tier career structure for teachers**, with advancement dependent on measured performance rather than length of service.
- 4. Implement a value-added model of school performance** conditioned on socioeconomic variables stored in the Integrated Database Infrastructure.

5. **Develop intervention protocols for persistently underperforming schools,** including leadership replacement and structural change where necessary.

6. **Extend earned autonomy to high-performing state schools,** providing operational freedoms currently limited to charter schools.

CHAPTER 12

Tertiary Education and Skills

New Zealand's tertiary sector faces a different crisis to that besetting schools. Academic freedom, the cornerstone value under which innovation and productive debate flourish, is under assault, with speakers banned from campuses and academics and students intimidated into silence on vital issues. Grade inflation threatens the integrity of credentials: A-grades rose from 22 percent to 35 percent of all grades between 2006 and 2024, with some institutions awarding A grades to nearly half their students during COVID.²⁷⁵ Meanwhile, universities employ more administrators than academics, the highest ratio in the English-speaking world, even as New Zealand Universities' international rankings continue to slide.²⁷⁶

The Luxon government's tertiary reforms have been piecemeal. Budget 2024 increased tuition subsidies by 2.5 percent and permitted fee increases of up to 6 percent – measures that barely keep pace with inflation. Shifting the Fees Free initiative from first-year to final-year focused on completion rather than enrolment but did nothing to improve the participation of students from socioeconomically-disadvantaged backgrounds, which was the original intention of the policy. Its abolition in the 2026 Budget was therefore welcome. Academic freedom legislation responds to documented threats but lacks a mechanism for complaints or accountability.

On the vocational education side, Te Pūkenga, the mega-polytechnic created through the Ardern government's 2020 reforms, has been disestablished after accumulating deficits and failing to improve outcomes. The institutions that emerged from its breakup have inherited uncertain governance, depleted capability,

dubious financial viability, and a skills system that does not always connect training to the needs of industry.

Academic freedom: documented threats, inadequate responses

The Initiative's 2024 report *Unpopular Opinions* documented threats to academic freedom at New Zealand's universities.²⁷⁷ The report gathered 72 testimonies from academics, including 21 incidents of suppression, and presented survey evidence showing substantial numbers of staff and students feel unable to discuss certain topics.

Three categories of threat were highlighted. First, the progressive orthodoxy that prevails in universities treats certain conclusions as impermissible regardless of evidence and discourages certain discussions from taking place at all. Second, the Chinese Communist Party pressures universities and academics to limit criticism of its regime. Third, managerial culture prioritises institutional reputation over intellectual inquiry.

The government responded to the report with legislation requiring universities to adopt free speech policies and institutional neutrality, meaning that they are prohibited from taking public positions on matters other than policy affecting their core educational and research roles.

While these measures were necessary, they will not solve the problem on their own. The underlying problem is cultural, brought about by a combination of ideological skew in the

academic community and the decades-long transformation of universities from communities of scholars into bureaucratised businesses.

Unfortunately, the cultural problem cannot be solved through direct policy intervention. The existing legislation could be strengthened, however, by the inclusion of an independent complaints procedure, as recommended in *Unpopular Opinions*.

Administrative bloat

The Initiative's 2024 report, *Blessing or Bloat?* showed that New Zealand universities employ more non-academic than academic staff. Indeed, this country's universities enjoy the dubious honour of the highest ratio of administrative staff to academic staff amongst comparable English-speaking countries.²⁷⁸

This is not explained by high numbers of staff in student services or teaching support. The growth has occurred mainly in management, compliance, communications, and diversity administration. Many of these functions did not exist twenty years ago, and those that did were far less prominent. Universities once employed administrators to support academic work. Now, academics find themselves overloaded with administrative workloads in support of universities' bureaucracies.

Universities have adopted corporate structures with deputy vice-chancellors, pro-vice-chancellors, and deans supported by professional staff, many of whom require professional staff of their own. Money spent on administrators is money not spent on academics, libraries, laboratories, or student support. Time spent by academics satisfying compliance requirements is time not spent on teaching or research. When universities are run like government agencies, they cease to function as communities of scholars.

Vocational education

New Zealand's vocational education sector has experienced more structural change than any other part of the education system over the past decade, with no improvement to show for it. The polytechnic mergers that created Te Pūkenga in 2020 were supposed to deliver national consistency, improved pathways, and better connections to industry. They delivered none of these. Instead, Te Pūkenga accumulated deficits while failing to arrest declining enrolments. Industry engagement, supposedly the centrepiece of the reform, did not improve. The government announced Te Pūkenga's disestablishment in 2024, with new regional institutions taking over its functions.

A fundamental problem that predates Te Pūkenga and that will survive its demise is that New Zealand has never valued vocational education as highly as university education. Too often it has been seen as a pathway for school-leavers not capable of university study.

The Initiative's 2025 report *Trade Routes: Charting New Pathways from Secondary School to Industry Training* examined workplace-based learning models that could strengthen connections between training and employment.²⁷⁹ The common element in successful systems is genuine employer ownership – not merely participation in consultation or advisory groups but direct responsibility for training outcomes.

Trade Routes notes that countries in which vocational education is esteemed highly also have high quality training and apprenticeship systems. For example, Germany's dual training system integrates workplace training with classroom instruction, producing both technical skills and professional identity. The model requires sustained employer commitment and regulatory infrastructure that New Zealand lacks, but it demonstrates what purposeful vocational education can achieve.

Recommendations

The incoming government should:

- 1. Establish multi-year university funding agreements tied to teaching quality and research performance.** This would reduce annual budget uncertainty and improve strategic stability.
- 2. Reduce government reporting requirements for universities** by consolidating compliance frameworks and eliminating duplicative accountability mechanisms.
- 3. Cap non-academic staff ratios at universities receiving public funding,** requiring institutions to justify administrative expenditure against international benchmarks.
- 4. Strengthen academic freedom legislation requiring universities** to adopt and enforce free speech policies, by mandating meaningful consequences for non-compliance.
- 5. Complete Te Pūkenga disestablishment by December 2026** with clear governance arrangements and accountability frameworks for its successor institutions.
- 6. Establish German-style dual vocational pathways** combining workplace and institutional learning, with employers co-funding and co-delivering training.
- 7. Link tertiary funding to verified employment outcomes,** rewarding institutions whose graduates find relevant employment at appropriate skill levels.
- 8. Require vocational education institutions to demonstrate industry partnership** as a condition of programme approval, moving beyond advisory consultation to genuine co-ownership.

CHAPTER 13

Health

The Initiative's 2023 *Prescription for Prosperity* urged the government to stop treating centralisation as the cure to health system problems. It argued that the 2022 health reforms failed to diagnose the health system's deeper problems: inadequate information, flawed incentives, weak accountability, and insufficient attention to models of care.

It recommended the government prioritise funding incentives, accountability mechanisms, and integration between health and social services.

It urged addressing shortages of general practitioners. It recommended aggressively recruiting overseas-trained doctors, developing funded bridging programmes for foreign doctors, and increasing medical student intake in Auckland and Otago universities. It also suggested exploring role and task substitution so medical professionals could work to the upper-boundaries of their scopes of practice, reserving those in short supply for the tasks that only they can do.

The 2023 recommendations also included greater international benchmarking of Pharmac's procurement performance and requiring Medsafe to recognise approvals from trusted overseas regulators for vaccines, drugs and treatments.

Since 2023, The Initiative has undertaken additional work in health, with a substantial report on strengthening primary care.

Remove NZREX bottlenecks and strengthen GP retention

The Initiative's prior work supported both faster supply expansion and stronger retention.

Professor Des Gorman and Dr Murray Horn's 2023 *Lifeline for Health*²⁸⁰ recommended aggressive overseas recruitment, bridging pathways for internationally trained doctors, expanded domestic medical training, and better workforce planning.

Dr Prabani Wood's 2025 *The Heart of Healthcare*²⁸¹ then sharpened the primary-care focus: more GP registrar places, pay parity with hospital-based registrars, funding for non-contact work, stronger teaching support, and changes to out-of-hours obligations that make general practice more attractive.

Since 2023, government policy has moved partly in this direction.

For internationally trained doctors whose route to New Zealand registration requires passing the NZ Registration Examination (NZREX), limited examination capacity can create a bottleneck. In 2025, NZREX Clinical capacity was temporarily increased to up to 180 candidates, across three sittings. The Medical Council's current 2026 schedule lists two NZREX sittings and does not indicate that the 180-place 2025 capacity has been made permanent.

Up to 100 overseas-trained doctors already living in New Zealand are being supported into supervised primary-care roles.²⁸² The government has backed Waikato Medical School, with 120 places from 2028; Auckland and Otago are also receiving additional places;²⁸³ and, from 2027, first-year GP trainees not already employed in private practice will remain employed by Health NZ on hospital-equivalent terms.²⁸⁴

These are useful supply-side measures. But the expansion in NZREX sittings was only

temporary. As of May 2026, applications for the September examination were closed, with no further examinations planned for 2026. Dates for 2027 “will be announced later in 2026.”²⁸⁵

An internationally trained doctor whose only route is NZREX, and who had not already secured a 2026 examination place, would have to wait for dates not yet announced for 2027. Both that doctor, and that doctor’s potential patients, would have to wait.

Sittings for the NZREX exam should be available whenever there is sufficient demand to warrant holding an examination. They should not create a bottleneck.

They also do not remove the underlying retention problems in general practice. Providing GPs with greater freedom to increase co-payments for patients who can afford them, while strengthening support such as the High Use Health Card for those who cannot,²⁸⁶ could make General Practice more sustainable.

Monitor changes that strengthen capitation

The Initiative’s 2025 report *The Heart of Healthcare*²⁸⁷ identified a structural problem in healthcare funding. The capitation model underpinning general practice funding has been insufficiently sensitive to the complexity and cost of care. Although capitation has never been literally flat, the formula has not adequately reflected multimorbidity, rurality, deprivation, or the increased complexity of care now delivered in general practice. Poor access to primary care can allow manageable conditions, including mental-health conditions, to worsen. Some of those costs then appear outside the health system, including in welfare dependency and reduced labour-force participation. Fixing this requires moving from flat capitation to case-mix funding that reflects patient need.

Dr Wood’s report argued that primary-care funding should recognise patient complexity, chronic disease, continuity of care, non-contact work, and the system savings produced when good general practice prevents avoidable hospital use. Capitation models had been somewhat crude; she recommended moving toward blended, complexity-sensitive primary-care funding.

The government has announced capitation reweighting from 1 July 2026. The revised formula is expected to go beyond age and sex to include multimorbidity, rurality and socioeconomic deprivation. That is a welcome acknowledgement of the problems noted in Dr Wood’s critique, but it will need ongoing evaluation to ensure it is fit for purpose.

Strengthen primary-care data

Dr Wood’s *Better Health through Better Data*²⁸⁸ argued that New Zealand has good administrative data but lacks clinical data from GP practices, where much of the health system’s preventive and chronic-care work occurs.

She proposed a model with clinician-led governance, patient voice, privacy by design, de-identification, opt-out rights, common data standards, logged approved uses, practice dashboards, and eventual linkage to hospital, pharmaceutical, mortality and IDI data.

Her earlier *Heart of Healthcare* report also recommended national healthcare IT standards, interoperability across care settings, coding standardisation, robust telehealth infrastructure, and patient-centred records that follow patients through the system.

Since 2023, Health NZ has begun developing the National Primary Care Dataset. Encounter and appointment dataflows began for participating practices in April 2026, with use in target

reporting from July 2026 and first public reporting expected by the end of 2026.

Health NZ's Health Digital Investment Plan and Shared Digital Health Record programme move toward better national interoperability and shared patient information.^{289, 290}

These are important steps, but they are not yet the clinician-governed primary-care learning network Dr Wood recommended.

Improve access to overseas-approved medicines

Small countries cannot afford to duplicate all of the regulatory machinery present in larger countries. The faster the pace of innovation abroad, the greater the case for unilateral recognition of other countries' regulatory authorisations.

Safe to Follow, published in 2023, recommended that medicines approved by at least two trusted overseas regulators should be automatically approved in New Zealand unless Medsafe has extraordinary and compelling safety concerns.

The problem is not just that Medsafe is unlikely to find problems that were not already discovered by larger and better resourced overseas regulators. It is also, and more substantially, that New Zealand regulatory approval is often not a priority for overseas pharmaceutical companies. Their regulatory affairs teams have limited time and attention, and sensibly focus that attention on larger markets.

Application for Medsafe authorisation can take years after a medicine has already been approved and in common use abroad.

Since 2023, the coalition agreement moved policy in this direction, but the legislation did not deliver automatic recognition.

The Medicines Amendment Act instead created a verification pathway for medicines with full marketing authorisation from two or more recognised authorities. Sponsors still need to apply, products must be materially identical, and provisional, conditional, emergency and export-only authorisations are excluded.²⁹¹

So the pathway would be of limited use during any future pandemic when haste is critically important; drugs approved for emergency use abroad would not be eligible.

The Act also created only a limited advertising exemption for unapproved medicines at medical conferences and trade shows.

The Initiative's submission on the Medicines Amendment Bill argued that automatic approval should include emergency-use or provisional authorisations, with a Medsafe handbrake only for exceptional cases.²⁹²

It is possible that the verification pathway, potentially combined with AI advances that make it simpler for pharmaceutical companies to comply with Medsafe requirements, will hasten application for Medsafe approval of new medicines.

The government should monitor both the lag between overseas approval and Medsafe application, and the lag between application and Medsafe decision. If the first lag persists, the verification pathway will not have solved the small-market priority problem, and genuine automatic recognition will be warranted. If the second lag is longer than Parliament expected, either improved Medsafe processes or automatic approval would be warranted.

Pharmac benchmarking

Bryce Wilkinson's *Pharmac: The Right Prescription?* praised Pharmac's price discipline

but recommended systematic international benchmarking of its procurement performance. It also argued that policymakers need to clarify what the Combined Pharmaceutical Budget is intended to achieve and how marginal spending on medicines should be compared with spending elsewhere in the health system. *Prescription for Prosperity* carried forward those recommendations.

Wilkinson's *Every Life is Worth the Same* went on to argue that Pharmac should treat people with equal need equally and should not assign different values to lives or to Quality Adjusted Life Years on the basis of race or ethnicity.

The recommendation is not indifference to poor outcomes among Māori, Pasifika or other groups. It is that policy should identify the underlying causes of poorer outcomes and rigorously evaluate interventions, rather than using group identity as a proxy for need.

For example, many illnesses correlate with poverty and overcrowded housing. There are differences in poverty rates and in household overcrowding by race or ethnicity. Targeting by race or ethnicity will often be less precise than targeting the underlying condition of need, such as income, housing status, access barriers, or clinical risk.

Since 2023, Pharmac has received a major funding uplift and new ministerial expectations. The 2024 Budget provided a \$604 million increase, which Pharmac says has funded 66 medicines, including 33 cancer medicines. The 2024/25 and 2025/26 Letters of Expectations asked Pharmac to consider wider fiscal and societal impacts, improve timeliness, and examine its assessment and procurement roles.

The 2024/25 Pharmac Letter of Expectations also removed the previous expectation to embed Te Tiriti across Pharmac's work and stated that Pharmac should serve all New Zealanders based

on actual need, without assigning background as a proxy for need. The 2025/26 letter²⁹³ then referred to the Cabinet Circular on needs-based service provision.

Those are useful changes. Pharmac decisions should be needs-based and evidence-based. But the requested self-assessment exercises should include regular international benchmarking of procurement performance, and transparent analysis of the marginal value of increasing the pharmaceutical budget.

Allow compensated plasma collection

Peter Jaworski's research note *Liquid Gold* argued that New Zealand's ban on compensated plasma collection is inconsistent with patient need. The report noted that countries allowing compensated commercial plasma collection have surplus plasma, while countries prohibiting donor compensation rely on imported plasma-derived therapies produced from compensated donors elsewhere. The patient-centred recommendation is to allow compensated plasma collection alongside the existing voluntary system.

Since 2023, the case has strengthened rather than weakened. New Zealand Blood Service material continues to note rising demand for plasma-derived products,²⁹⁴ and a 2025 Letter of Expectations for the New Zealand Blood and Organ Service explicitly asked for advice on changes to the current plasma-donation business model, international examples, the self-reliance target, and sourcing a greater share of products from international markets.²⁹⁵

In practice, sourcing a greater share of blood products from international markets means greater reliance on products sourced from paid donors in the United States. Allowing donor compensation here would increase resilience against shocks to overseas supplies. It would also improve equity internationally. Many

countries cannot manufacture blood products domestically. Those countries would have greater access to supplies if New Zealand did not unduly impede plasma collection.

Recommendations

1. **Make NZREX examination capacity permanent and demand-driven.** Sittings should be scheduled whenever there is sufficient demand, not rationed to two or three fixed dates per year. An internationally trained doctor should not have to wait for dates that have not yet been announced.
2. **Give general practitioners greater freedom to set co-payments.** Strengthening the High Use Health Card and Community Services Card would protect access for low-income patients while making general practice more financially sustainable.
3. **Evaluate the capitation reweighting introduced from 1 July 2026.** An independent evaluation should be published within two years, assessing whether the revised formula adequately reflects patient need and reduces avoidable hospital use.
4. **Establish a clinician-governed primary-care data network.** The National Primary Care Dataset is necessary infrastructure but not yet the clinician-led learning network recommended in Better Health through Better Data. The government should set a clear timetable for moving from administrative data collection to a network that supports clinical improvement.
5. **Monitor the medicines verification pathway and move to automatic recognition if it fails.** The government should publish annual data on the lag between overseas approval and Medsafe application, and between application and Medsafe decision. The pathway should also be extended to emergency-use and provisional authorisations.
6. **Require Pharmac to publish regular international benchmarking of its procurement performance.** This should include transparent analysis of the marginal value of increasing the pharmaceutical budget relative to spending elsewhere in the health system.
7. **Allow compensated plasma collection alongside the existing voluntary system.** Prohibiting donor compensation while importing products sourced from compensated donors abroad is inconsistent with patient need and reduces resilience against supply shocks.

CHAPTER 14

Housing Affordability

House prices in New Zealand remain among the least affordable in the developed world. Unaffordable housing fuels poverty. It restricts labour mobility and divides society into property owners and those permanently locked out of the market. It hits the poorest hardest.

The fundamental cause of poor housing affordability is lack of supply and competitive conditions. Three structural constraints, working together, prevent the market from responding:

- **Local governance and council incentives:** Councils bear the immediate costs of growth while central government captures its financial benefits through GST on construction and tax from new residents and new businesses.²⁹⁶ This misalignment creates a structural disincentive for councils to enable development, regardless of how the planning rules are written. Beyond the council balance sheet, communities and developers lack tools and standing to finance and govern their own growth. The institutional capacity for bottom-up infrastructure assembly was deliberately dismantled in 1989 and 1996 and has never been restored.²⁹⁷
- **The planning system:** Restrictive zoning constrains the construction of high density dwellings in cities, particularly their centres. Rural-urban boundaries prevent cities from growing outward, decoupling the price of urban land from economic fundamentals (locational advantage, amenity, public services). Together, these restrictions convert what should be a competitive urban land market into a centrally managed allocation system that creates an artificial shortage of land supply alongside equally artificial scarcity rents.²⁹⁸
- **Infrastructure finance:** Councils cannot build the infrastructure that new housing requires without loading costs onto their own balance sheets, which are constrained by debt limits and ratepayer tolerance. The absence of credible off-balance-sheet financing tools means that even when land is freed up for development, the infrastructure needed to service it cannot be funded in advance. Planning reform and infrastructure finance reform are therefore complementary. Solving one without the other still leaves the system structurally constrained.²⁹⁹

These constraints are mutually reinforcing. Since 2012, the Initiative has argued that all three must be addressed together.³⁰⁰ That diagnosis has gained bipartisan support. Sir Bill English described New Zealand as having reached an “amazing, almost bipartisan” agreement on housing.³⁰¹ Phil Twyford and Chris Bishop, ministers from opposing parties, have made the same diagnosis and issued the same prescription: the only durable path to affordability is to free up and enable competition in land markets, both within the city and at the urban fringe.

The Coalition Government’s *Going for Housing Growth* programme is structured around these three constraints.³⁰² Its direction aligns with principles the Initiative has championed: abolishing rural-urban boundaries, embedding property rights as a foundational principle in planning law, and introducing standardised zoning. The question is no longer whether these principles should be adopted, but whether they will be implemented with sufficient depth and durability to outlast their champions.

The period since 2023 has seen progress on planning reform and infrastructure financing.

The third constraint, governance and incentives, has received less attention. The Luxon government's Build-for-Growth GST sharing policy remains unimplemented after two budgets. The mechanisms for empowering developers, communities and iwi to bypass council balance sheet constraints have not yet been given statutory form. Without addressing governance and incentives, reforms that address planning and infrastructure finance remain handicapped by councils whose underlying incentives remain unchanged, and by landowners and developers unable to reroute around decision makers with incentives to restrict supply.

Aligning local government incentives

The core problem is that incentives for planners are misaligned with growth (see point 1 above). The Initiative identified it in 2013, after finding that countries like Germany and Switzerland have avoided housing affordability problems by giving local governments direct financial stakes in development.³⁰³ In a 2014 lecture to Treasury, Oliver Hartwich argued that giving local government “more financial incentives to allow development” was the key to solving housing affordability.³⁰⁴ An Initiative submission to the New Zealand Productivity Commission (NZPC) in 2018 formally recommended a tax-sharing arrangement to align council incentives with growth.³⁰⁵

The Luxon Government has acknowledged the problem. The National-ACT coalition agreement included a commitment to “investigate sharing a portion of GST collected on new residential builds with councils”.³⁰⁶ LGNZ calculated that a 50 percent share of GST from 2024 building consents would have generated \$1.3 billion for councils.³⁰⁷ While there would be a short-term fiscal impact for central government, over time it would be expected that additional economic activity arising from this policy would result in higher tax revenue.

After two Budgets, the policy remains unimplemented. Previous Budget documents indicated that GST sharing was “still actively being considered”.³⁰⁸ The Government should deliver on this commitment in Budget 2026.

The Luxon government has prioritised financial discipline. The Local Government (System Improvements) Amendment Bill focused on forcing councils to stick to “core services” and removed the “four well-beings” that councils have used to justify broader expenditure.³⁰⁹ While this is necessary medicine, rules and caps alone will not cure the patient.

The government has also pursued bespoke, contestable funding mechanisms: the Regional Infrastructure Fund, the Infrastructure Acceleration Fund and City and Regional Deals.³¹⁰ These have been poor substitutes for an automatic, systemic incentive that rewards all councils that enable growth. Contestable funds require councils to apply and be selected; they do not change the underlying incentives that shape day-to-day planning decisions.

The Initiative's August 2024 survey of mayors, councillors and council chief executives found that 94 percent agreed central government exerts too much control over local councils, and 74 percent support greater devolution of power.³¹¹ Council leaders want autonomy and responsibility but lack the tools and incentives to exercise them productively.

Fiscal discipline and growth incentives are complementary. A council that receives no financial benefit from approving development has every reason to resist it, regardless of how tightly its other activities are constrained.

New infrastructure funding tools

Council balance sheets are constrained by debt limits. The Office of the Auditor-General reports

that council debt is at record levels, having doubled since 2017.³¹² This means that council debt is approaching its limit. The pressure that causes has intensified with the return of water infrastructure liabilities to council balance sheets through the Local Government (Water Services Preliminary Arrangements) Act 2024.³¹³

This is an unfunded mandate. Councils are required to deliver costly, complex water infrastructure while simultaneously facing pressure to keep rates low, which are needed to fund public services – including that infrastructure. Reliance on traditional funding methods has become unsustainable.

New Zealand faces a substantial, structural infrastructure investment deficit. The country spends one of the highest shares of GDP on infrastructure in the OECD and receives one of the lowest returns. NZIC's first National Infrastructure Plan confirms that, without a fundamental change in approach, Crown debt will reach an unsustainable level and the infrastructure gap will widen regardless of how carefully institutions plan and prioritise.³¹⁴

NZPC's 2019 inquiry into local government infrastructure funding and financing reached the same conclusion. Current finance mechanisms are adequate in a static environment but fail when growth is required.³¹⁵ A planning system premised on competitive urban land markets is precisely the dynamic environment in which the single available finance channel fails.

What is missing is a second finance channel. New Zealand finances virtually all local infrastructure through council balance sheets, which are funded by general rates and constrained by voluntary debt limits often backed by covenants on existing debt. That single channel can raise debt cheaply, but it cannot grow fast enough to meet development demand. It has no internal efficiency incentives, and it allocates capital to meet political rather than

value objectives. Both NZIC and NZPC have recommended a complementary channel whereby infrastructure is financed by the beneficiaries of growth, including future residents. While this requires developers and investors, rather than ratepayers and taxpayers, to bear the risk of project failure, its advantage is that communities and developers can harness the value created to fund the project.³¹⁶

New Zealand used to have a second channel like this. For most of the twentieth century, communities could vote to tax themselves for specific projects, borrow independently of councils and build what they needed. Between 1989 and 1996, however, this capacity was dismantled.³¹⁷ The Infrastructure Funding and Financing Act 2020 was conceived to begin rebuilding it. Five years on, only three levies have been authorised. The work remains substantially unfinished.

The Government is addressing this through its *Going for Housing Growth* reform programme, specifically Pillar 2, which focuses on improving infrastructure funding and financing tools.³¹⁸ The reform programme is proceeding in two ways:

- **Amending the Infrastructure Funding and Financing (IFF) Act 2020** to increase uptake, streamline the levy approval process and make it more viable for developer-led projects.³¹⁹
- **Overhauling the Development Contributions regime**, replacing it with new “Development Levies” that focus on flexibility over accounting accuracy, to better enable growth to pay for growth in more dynamic land and development markets.³²⁰

These reforms are moving in the right direction and should be passed. The development levies changes reflect the sound principle that beneficiaries of growth should pay for their share of the benefit. But optimising the existing model is not ambitious enough. What is needed is not

just a better version of the current approach, but the deliberate development of institutions over time to enable a genuine second finance system.

The Government should legislate for two further mechanisms that empower communities and developers to finance infrastructure independently of council constraints:

1. **Ratepayer-Assent Bonds** are a new class of off-balance-sheet financing through Special Purpose Vehicles, under which ratepayers who would benefit from infrastructure vote directly on whether to approve the debt and levy used to repay it.³²¹ This mechanism solves the political-economy problem that has contributed to low uptake of the IFF Act's Infrastructure Levy Model. By obtaining democratic consent at the local level, it bypasses political hurdles at both council and Cabinet levels.
2. **The Devolution Pathway** grants developers, community associations or iwi authority to manage planning, zoning and infrastructure finance for their own projects, entirely independent of municipal balance sheet constraints.³²² This is modelled on a successful Canadian First Nations initiative. The Squamish Nation is building a 6,000-apartment development in central Vancouver, a density that the city's planning system would never have permitted. The Ch'iyaqtel (Tzeachten) Nation has built over 1,600 homes and transformed its economy from 90 percent government reliance to 90 percent own-source revenue.³²³ When groups have genuine authority over their own land and the financial tools to develop it, they choose growth.

A further option the government could pursue is asset recycling with a statutory "locked box." Hospitals and schools need updating while substantial capital remains locked in state-owned enterprises. Following the New South Wales

"Restart Fund" model, proceeds from asset sales or long-term leases could be placed in a statutory fund that can only be used for new infrastructure investment.³²⁴ The governance mechanism is more important than the asset sale itself. It provides capital for central government's contribution to City Deals and major projects without raising taxes or debt.

Abolishing rural-urban boundaries

The price of land inside Auckland's urban boundary remains vastly higher than immediately outside it. Updated research from Treasury, HUD and the RBNZ confirms that the formal "rural urban boundary" restriction added \$378 per square metre to land prices immediately inside the outermost boundary of Auckland's future urban zone in 2021.³²⁵ NZIC found that the urban-to-rural land value ratio in Auckland rose from 2.1 to 4.4 over the preceding decade, and that urban zoned land at Auckland's urban periphery was valued at a premium of nearly \$1,300 per square metre compared to surrounding rural land.³²⁶ This price gap is regulatory in origin. It is a scarcity rent caused by land rationing that lifts the entire price floor of the urban area.

The Government is taking decisive action. The *Going for Housing Growth* programme explicitly proposes to prohibit councils from imposing rural-urban boundary lines in their planning documents.³²⁷ This does not prevent councils from having rurally zoned land, but it does prevent them from setting "hard regulatory boundaries that constrain growth".³²⁸

This shifts the planning system slightly towards a presumptive right to build on city fringes, conditional on infrastructure costs being covered by developers. The Government has replaced a physical barrier with an economic constraint. Development is enabled, provided it pays for itself. This creates competition

between greenfield expansion and brownfield intensification, precisely the market-based approach the Initiative has long advocated.

However, the new system introduces a risk of a de facto boundary being imposed through the back door. A directive from central to local government requires councils to meet a 30-year capacity target that involves zoning sufficient land for three decades of projected housing demand, using “high” population growth projections.³²⁹ This is a welcome floor on supply, but it relies on planners accurately forecasting demand. If a council underestimates future demand or locates its zoned capacity in impractical places, it can meet the target on paper while providing insufficient actual supply.³³⁰

The Government must prohibit the use of demand forecasting as a gating mechanism for development permissions. Capacity modelling should be used for monitoring, not for constraining development. The ultimate test must be price signals comprising a suite of indicators. For example, councils should be required to ease zoning restrictions whenever the price differential between zones (either within the urban area or at the rural-urban boundary) widens beyond a statutorily defined threshold.³³¹ The Government’s innovation of requiring that “price indicators do not deteriorate over time” is a step in the right direction³³², but the principle should be strengthened and given statutory force.

Height and density controls

Enabling cities to grow out and to grow up are both necessary, but they are not equivalent. Outward expansion provides a more fundamental price discipline. A credible threat of greenfield entry at the urban fringe prevents incumbent landowners from extracting scarcity rents across the entire city. Intensification, if it is done well, avoids unnecessary sprawl, reduces

infrastructure cost per dwelling and generates the agglomeration benefits of increased density.

The Initiative’s 2014 report *Up or Out* argued that both mechanisms are required and that restricting either while mandating the other produces neither affordability nor the urban form its proponents claim.³³³ The “compact city” ideology, which restricts outward growth while mandating density, fails on both counts. It preserves the scarcity that drives prices up, while concentrating the costs of intensification on existing residents, who have every incentive to resist it.

The Government has not abolished height or density controls. Instead, it has made the 2021 Medium Density Residential Standards optional for Tier 1 councils, provided they meet the new Housing Growth Targets.³³⁴ Auckland Council has used this optionality to withdraw Plan Change 78, replacing it with Plan Change 120, a bespoke intensification plan that focuses development into “safer, well-connected places” away from hazard zones.³³⁵ Whether this can deliver equivalent housing capacity remains to be seen, but a recent government decision to reduce the growth requirements of Plan Change 120 have undermined the credibility of both the resource management reform and the *Going for Housing Growth* programme.³³⁶

The Government has, however, abolished specific micro-regulations that acted as floors on housing cost. Minimum floor area requirements and balcony mandates, which added \$40,000 to \$70,000 to apartment costs in Auckland, have been removed.³³⁷ Mixed-use zoning requirements have been introduced, allowing small-scale commercial activities in residential areas.

The policy represents a trade-off. The Government has adopted half of the required solution (enabling building out) while giving councils discretion on the other half (building up). It must ensure that the new planning system defaults to enablement, not restriction.

It should mandate a national, standardised set of zones that are permissive by default, reducing the current 1,175 local zone variations to a handful of simple national templates.³³⁸ Japan's 13-zone system provides a successful model.³³⁹ Councils should be prohibited from using aesthetic controls, minimum floor areas, balcony requirements and character overlays as arbitrary floors on cost and barriers to supply.

The planning reform that housing depends on

The housing affordability problem cannot be solved without the planning reform discussed in Chapter 17. The Planning Bill and the Natural Environment Bill, introduced in December 2025, represent the most ambitious overhaul of New Zealand's planning system in a generation. Their direction is right, but their operative provisions fall short of their stated aspirations.

From a housing perspective, the critical test is whether the bills give operative force to competitive urban land markets or merely state the aspiration. The Planning Bill lists "enabling competitive urban land markets" as a statutory goal, which is a genuine advance. But it provides no definition of what 'competitive' means and imposes no monitoring obligations, nor any mandatory response, when markets are not competitive. A goal without an actionable mandate is a statement of intent, not a legal standard.

Three structural gaps in the bills will limit their positive effect on housing supply:

- The words "property rights" do not appear in the Planning Bill, despite the government committing to a system "premised on the enjoyment of property rights as a guiding principle."³⁴⁰ This means maximal intensification of land use, limited only by unmanageable or material impact on the

value or reasonable use of other land. The Bill instead treats development enablement merely as one of several goals. The select committee should correct this by inserting property rights (i.e., the "presumed right to build") as a foundational principle, with the burden of justification placed on restriction rather than on development.

- The regulatory relief threshold remains too high. "Significant impact on reasonable use" will leave many landowners whose property values fall substantially due to planning restrictions without recourse.³⁴¹ The threshold should be lowered to "material impact on the value or reasonable use of land."
- Neither bill requires cost-benefit analysis before setting environmental limits or national policy direction.³⁴² Without that discipline, the same asymmetry that corrupted the RMA (environmental effects triggering regulation and economic costs remaining invisible) will be reproduced.

Chapter 17 sets out these concerns in full and proposes the fail-safe mechanisms the Bills require: a statutory property rights presumption, a meaningful net benefit test, a put option for affected landowners, and competitive urban land markets embedded in primary legislation with operative definitions. Those mechanisms are as essential to housing affordability as they are to the infrastructure and incentive reforms discussed in this chapter.

Recommendations

There is initial evidence that reforms already in place are increasing housing supply. A structural shift appears to have been achieved, with some disciplinary effect on rents and prices. But housing remains severely unaffordable, even though the trajectory has changed.

The binding constraints have moved. Planning reform has progressed far enough that the

burden is shifting to constraints two and three: infrastructure finance and local governance incentives.

The incoming government should:

- 1. Prohibit capacity-based rationing of land supply.** Replace “sufficient development capacity” with “competitive urban land supply” as the statutory test in the Planning Bill, defined by legal availability, economic substitutability, simultaneity and credible threat of entry. Mandate automatic upzoning when the rural-urban land price differential exceeds a statutorily defined threshold. Chapter 17 sets out the fuller case.
- 2. Legislate for permissive, standardised zoning by default.** Include enabling provisions for a national standardised zoning system in the Planning Bill. Prohibit councils from using aesthetic controls, minimum floor areas, balcony requirements and character overlays that act as arbitrary floors on housing cost.
- 3. Commit to a transition pathway toward infrastructure finance where investors, not ratepayers, bear the risk.** The IFF Amendment Bill is a necessary first step. The Government should treat it as the beginning of a phased transition that progressively reduces Crown dependence.

- 4. Legislate for ratepayer-assent bonds and the devolution pathway.** Communities, developers and iwi should be empowered to finance and govern infrastructure independently of council balance sheets, through democratic local ballots and devolved planning authority.
- 5. Establish an Asset Recycling Fund with statutory ring-fencing.** Proceeds from state asset sales or long-term leases should be placed in a locked-box fund from which only new infrastructure investment can be drawn.
- 6. Implement the Build-for-Growth GST-sharing scheme in Budget 2026.** A portion of estimated GST from new construction should be shared with the councils that issue consent. The scheme must be automatic and formula-based, not a contestable fund.
- 7. Restore institutional capacity for community-led infrastructure assembly.** The centralising reforms of 1989 and 1996 stripped communities of the tools to finance and govern their own growth. Those tools should be restored.

CHAPTER 15

Immigration

New Zealand was built on immigration. Māori descend from Polynesian migrants and, since the nineteenth century, the country has relied on migrant labour, skills and capital to supplement a small domestic population. Yet the policy settings that govern who comes, on what terms, and with what pathway to residence have rarely been stable for long.

In the year to October 2023, net migration hit a record 135,500, reflecting border reopening and the clearance of pandemic visa backlogs.³⁴³ By February 2026 the annual net gain had fallen to 25,200. That figure masks two divergent trends: a net non-citizen gain of approximately 67,400, against a net citizen loss of 44,200, driven primarily by departures to Australia.³⁴⁴ The Initiative's 2024 research note *Are Flying Kiwis Fleeing?* described the citizen exodus as an “orange light” warning.³⁴⁵ Domestic policy settings are failing to generate wages and living conditions competitive with Australia. Until New Zealand closes the productivity gap through housing reform, infrastructure investment and regulatory modernisation, that outflow will continue.

In mid-2024 the government removed the right of workers in lower-skilled visa categories to bring partners and dependent children to New Zealand, raised visa fees sharply, and curtailed the Migrant Exploitation Protection Visa renewal option. The pattern is one of useful liberalisation in some areas alongside new restrictions that undermine it in others.

The economic and fiscal case

The Initiative's 2017 report *The New Zealanders* documented the positive

contributions migrants make to the economy and public finances.³⁴⁶ Migrants contributed a net \$2.9 billion to the Crown's books in 2013, equivalent to \$2,653 per migrant compared with \$172 per native-born New Zealander.³⁴⁷ The difference reflects age structure: most migrants arrive in their economically active years, ready to work and pay taxes. They are more likely to be employed than the native-born, less likely to claim benefits, and their children achieve better educational outcomes on average.³⁴⁸

Despite this evidence, government rhetoric has increasingly framed migration through the lens of cost. Cabinet papers from 2024 justified restrictions by reference to “absorptive capacity.”³⁴⁹ Visa fees were raised dramatically on the grounds that “the true costs of migration should be borne by those that benefit from it.”³⁵⁰ The fiscal evidence says otherwise. Policymakers who claim migrants impose a net fiscal burden should be asked to cite their sources.

Reforms since 2023

The Luxon Government has introduced genuine improvements. Immigration Minister Erica Stanford dismantled rigid wage thresholds, streamlined skilled migration and cut processing times substantially. These changes bring immigration policy closer to the market-based principles the Initiative has advocated.

The most significant reform was the removal of the median wage threshold for the Accredited Employer Work Visa [AEWV] in March 2025.³⁵¹ The previous threshold prevented businesses in hospitality, aged care and primary industries from hiring migrants for legitimate roles that

New Zealanders were unavailable to fill. A new “market rate” requirement restores price signals: employers must demonstrate that the wage offered reflects what a citizen or resident would earn in an equivalent role.³⁵²

The Skilled Migrant Category was simplified, replacing a 180-point matrix with a six-point system based on professional registration, qualifications or income.³⁵³ Dedicated pathways for tradespeople and technicians were announced in September 2025, recognising that essential skills are often certified by qualifications other than university degrees.³⁵⁴ The work experience requirement was reduced from three years to two, and the “wage ladder” requiring migrants to demonstrate progressive wage increases was abolished.³⁵⁵ Processing times fell from 14 working days to 9 across all visa categories, and employer accreditation processing dropped from 62 days to 14.³⁵⁶

Remaining problems

Against these achievements, several policy choices will require reconsideration. The Initiative has not published extensively on all of the issues below, but each follows from the broad principles established in *The New New Zealanders* and in the Initiative’s wider work on labour markets, housing and infrastructure.

Family rights

The government appears to prefer that lower-skilled AEWV holders remain temporary workers rather than settle permanently. In June 2024, it removed family support rights from AEWV holders at ANZSCO levels 4 and 5.³⁵⁷ Aged care assistants, meat processors and hospitality staff can no longer bring partners or dependent children unless they meet income thresholds most will never reach.

The problem is that workers treated as temporary behave as temporary workers. They remit

earnings rather than spending locally, invest less in community ties and leave at the first opportunity. If New Zealand genuinely needs their labour, and sectors like aged care and meat processing cannot function without it, then it pays to integrate the people providing it. Workers desirable enough to recruit are worth retaining.

Service standards

Cabinet removed approximately \$43 million in Crown funding that had previously subsidised visa processing, shifting to full cost recovery.³⁵⁸ That is defensible in principle, if processing is efficient. But when applicants pay the full commercial cost, they are entitled to a commercial standard of service. Parent Residence Visa applicants wait up to 17 months.³⁵⁹ Proposals for annual reconsideration and renewal of work visas would only worsen the problem. Full cost recovery should be matched by accountability. Where INZ fails to meet published processing benchmarks, a portion of the fee should be refunded automatically.

The employer-visa tie

The AEWV ties a migrant’s right to remain in New Zealand to a specific employer. A worker who cannot walk away from an abusive employer, because departure triggers deportation risk, has no genuine bargaining power. The market rate requirement is not a migrant-protection mechanism; it rather guards against worries that employers choose migrants because they will accept lower wages. The strongest protection workers can have against abusive employers is the option to exit. Without the ability to change employers, a worker cannot credibly threaten to leave, and an employer willing to exploit that vulnerability faces little risk of losing staff.

The Migrant Exploitation Protection Visa was designed as a safety valve, allowing workers who report exploitation to leave their employer and work for any legal employer while the case is investigated. In October 2024, the government abolished the option to renew the visa for a

second term, and a short-term financial support package for holders was discontinued in March 2024.³⁶⁰

Any exit mechanism providing a visa extension in this kind of situation creates some risk of opportunistic claims by workers whose real grievance is dissatisfaction rather than exploitation. But the alternative, workers too afraid of deportation to report genuine abuse, is worse. The better response is robust investigation, not removing the exit option. The combined effect of the 2024 changes was to raise the cost of reporting at a time when enforcement depends on workers being willing to come forward.

Over the medium term, the government should examine whether AEWV holders can change employers within their accredited sector, perhaps after a stand-down period, without requiring a new visa application. That would address the structural power imbalance while preserving the incentive for employers to bear the upfront costs of international recruitment.

Competing for talent

New Zealand should not only fix its migration settings defensively – and policies aimed at ensuring confidence in the robustness of the immigration system can be viewed in that light. When other countries make themselves less attractive to skilled workers, New Zealand has an opportunity to attract talent it would not otherwise get. The United States' increasingly restrictive posture toward H-1B visa holders and skilled immigrants has already displaced talent toward Canada, Australia and parts of Europe. New Zealand's small size means it does not need to capture a large share of that flow for the effect to be significant.³⁶¹

The government's Golden Visa for high-net-worth investors showed willingness to compete at the top end of the market. A broader version of the same instinct, applied to skilled workers and entrepreneurs displaced by policy changes

elsewhere, would serve the economy well. The incoming government should develop fast-track pathways for workers with demonstrated skills or employer offers from countries where migration settings have tightened, ensuring New Zealand can move quickly when opportunities arise. For example, skilled workers in America on H-1B visas could be invited to apply here when living in America as a migrant becomes less attractive.

Community refugee sponsorship

New Zealand's Community Organisation Refugee Sponsorship pilot demonstrated that communities can resettle refugees at lower cost and with better integration outcomes than state-run programmes.³⁶² The pilot allowed up to 201 sponsored individuals across communities including Timaru, Nelson, Christchurch and Hamilton, required no new Crown funding, and does not compete with the state-funded refugee quota for places.³⁶³ The state-funded quota is capped at 1,500 places annually, constrained by settlement costs.³⁶⁴ Yet community sponsorship remains a pilot, with no indication of the government's intentions following the mid-2025 evaluation. It is the only scalable growth mechanism for New Zealand's humanitarian intake.

The absorptive capacity question

New Zealand does have real infrastructure problems. Housing is unaffordable, transport networks are congested, and health services are strained. But infrastructure constraints are not fixed. They result from domestic policy choices: planning systems that restrict housing supply and funding models that penalise councils for growth. The Initiative's 2021 report *The Need to Build* documented how demographic change, particularly shrinking household sizes, drives housing demand independently of migration.³⁶⁵ The infrastructure deficit predates the 2023 migration surge and will persist after migration falls, because its causes are domestic.

Cutting immigration does not build more houses. It merely ensures that New Zealand faces both a housing shortage and a labour shortage simultaneously. Treasury confirms that migrants pay more tax on market income than the New Zealand-born. It is not migrants' fault if central government spends those contributions on everything other than the infrastructure needed by a larger population. Similarly, migrants contribute to council rates. Infrastructure charging is shifting to ensure growth pays for growth. Chasing away migrants and their tax contributions risks worsening the government's fiscal problems. Infrastructure constraints are a reason to build more infrastructure, through the planning reforms outlined in Chapter 20 and the local government funding reforms outlined in Chapters 6 and 10, not a reason to accept managed decline.

Recommendations

The incoming government should:

- 1. Restore family rights for essential workers.** The removal of family support rights for ANZSCO level 4 and 5 workers should be reversed. Workers treated as temporary behave as temporary workers, to the detriment of the communities that depend on their labour.
- 2. Introduce service standards with refund mechanisms.** Where Immigration New Zealand fails to meet published median processing times, a portion of the fee should be automatically refunded.
- 3. Restore the exploitation safety net and examine the employer-visa tie.** The Migrant Exploitation Protection Visa renewal option should be reinstated, with improved investigation processes to manage the risk of opportunistic claims. Over the medium term, AEWV holders should be able to change employers within their accredited sector after a stand-down period, without requiring a new visa application.
- 4. Reject absorptive capacity as a substitute for supply-side reform.** Immigration settings should not be used to manage infrastructure pressure that successive governments have failed to address through domestic reform.
- 5. Develop fast-track pathways to attract displaced talent.** When other countries tighten migration settings, New Zealand should be positioned to move quickly, offering streamlined visa pathways for skilled workers and entrepreneurs with demonstrated qualifications or employer offers.
- 6. Institutionalise community refugee sponsorship.** Following the mid-2025 evaluation, community sponsorship should be established as a permanent programme with its own allocation separate from the state-funded refugee quota.

CHAPTER 16

Social Development

The objective of social policy should be to ensure that New Zealanders who need help receive it and are supported toward independence. The welfare system provides a necessary safety net, but current evidence suggests it is failing many of those it serves.

By mid-2025, New Zealand's count of working-age beneficiaries had reached 406,000.³⁶⁶ Those receiving support due to health conditions had surged by 15 percent year-on-year.³⁶⁷ The Initiative's 2017 report *Welfare, Work and Wellbeing* found that nearly three-quarters of those entering the welfare system before age 25 had a parent who was also benefit-dependent.³⁶⁸ The average time on benefit exceeded 13 years.³⁶⁹ These are unsustainable fiscal trajectories with substantial human costs.

Social investment since 2023

Social investment uses data and evidence to focus early, targeted support on people most likely to need it. It emphasises prevention, outcomes and long-term returns rather than providing help mainly after problems have escalated. The Initiative's *Welfare, Work and Wellbeing* made the case for this approach, and *Prescription for Prosperity* carried it forward as a recommendation to the incoming government in 2023.

The Social Investment Agency was created by the National government in July 2017, renamed as the Social Wellbeing Agency by the Ardern government, and re-established by the Luxon government in July 2024 with elevated Central Agency status alongside Treasury and Department of Prime Minister and Cabinet.³⁷⁰ A Social Investment Board chaired by Dr Graham

Scott, former Secretary to the Treasury, provides independent oversight.³⁷¹

Budget 2025 allocated \$275 million to Vote Social Investment over four years, of which \$190 million was for the Social Investment Fund.³⁷² The Fund is intended to test and scale the social investment approach by investing in early interventions for priority cohorts, working with social-sector organisations and agencies, and using evidence and outcome measurement to assess what works. Target cohorts include children of prisoners, children whose parents experienced state care, and children suspended from school before age 12.³⁷³ Initial partnerships include Autism New Zealand for early screening, Emerge Aotearoa for recidivism prevention, and He Piringa Whare for integrated housing and employment support.³⁷⁴

The government also reinstated the Benefit System Performance Report, which estimates the forward liability of the welfare system.³⁷⁵ Forward liability, the net present value of all future benefit payments a beneficiary is expected to incur, distinguishes programmes that perpetuate dependence from those that reduce it. *Welfare, Work and Wellbeing* recognised the importance of this measure, though it should be used alongside post-benefit employment, health and wellbeing outcomes rather than as the sole benchmark.³⁷⁶

Cross-portfolio challenges

As the Initiative noted in *Welfare, Work and Wellbeing*, economic growth, education, health, labour market and housing policies should aid rather than hinder the opportunities of those being left behind.³⁷⁷ Three areas deserve particular attention.

The surge in health-related benefit claims may reflect what the Initiative's Executive Director Oliver Hartwich has described as a "slow-moving public health crisis manifesting as a welfare problem."³⁷⁸ Many recipients are not typical jobseekers but individuals incapacitated by inadequately managed health conditions. Some of that surge may also reflect tightened criteria for access to work-ready benefits, with those who are ineligible seeking a medical diagnosis instead. Funding general practice according to case-mix complexity rather than flatter versions of capitation, as discussed in Chapter 9, would help address health-driven welfare dependency at its source.

The Initiative's *Owning Less to Achieve More* (2025) estimated that Kainga Ora operates at a cost exceeding private sector benchmarks by approximately \$25,000 per unit annually.³⁷⁹ Its model requires families to wait for state housing in specific locations rather than accessing suitable private-market accommodation near employment or support networks. The report argues that the government's focus on asset ownership impedes welfare outcomes by treating housing as a property management exercise rather than a social stability intervention.³⁸⁰ A voucher-based system would give recipients immediate choice and put competitive pressure on providers.

The Initiative's *Trade Routes* (2025) shows that school leavers without qualifications above NCEA Level 1 face significantly higher unemployment rates than those with vocational training.³⁸¹ The continued emphasis on university preparation over vocational skills feeds the pipeline from school to benefit dependency. The government's proposal to include industry-led subjects in the qualification replacing NCEA from 2029 is a step toward addressing this (see Chapter 7).

Innovation and implementation

Consumer-directed funding, where money follows the individual rather than the provider,

is a principle the Initiative has consistently supported, most notably in the 2021 report *The Power of Freedom*. But recent experience shows that the principle needs operational discipline.

The 2024 crisis in disability support services is a case in point. Whaikaha's Individualised Funding model experienced significant cost overruns, leading to purchasing restrictions in March 2024.³⁸² An independent review found unsustainable expenditure growth and inconsistent service delivery across regions, which it described as a "postcode lottery."³⁸³ The absence of clear entitlement criteria, standardised assessment and actuarial monitoring created the conditions for the fiscal crisis. This was a failure of implementation, not of the model. But it demonstrates that consumer-directed funding requires firmer fiscal and operational guardrails than Whaikaha had in place.

The same principle applies to aged care. The government has begun implementing case-mix funding in the South Island, which allows providers more flexibility within a fixed envelope.³⁸⁴ Case-mix funding is an improvement on rigid per-hour, task-based allocation, but it still directs money to providers rather than individuals. The longer-term goal should be portable personal budgets that give aged-care recipients genuine choice among competing providers.

Mental health is the largest unrealised opportunity. Budget 2025 allocated mental health funding to traditional service models rather than consumer-directed mechanisms.³⁸⁵ Recovery from mild-to-moderate conditions aligns well with personal budget principles, where individuals can choose between counselling, peer support or digital interventions based on their own needs. The Initiative has not published a dedicated report on mental health personal budgets, but the logic is a direct application of the principles set out in *The Power of Freedom*.

Data gaps

The success of social investment depends on comprehensive, integrated data. The Integrated Data Infrastructure is world-leading, but primary care data, where most health interactions occur, remains largely invisible to the system.³⁸⁶ Outcomes data from non-government providers rarely feeds back into government systems, preventing verification of programme effectiveness. Providers have limited incentive to share information that might reveal poor performance. Making outcome data a standard condition of social-service contracts, subject to privacy and proportionality safeguards, would close this gap over time.

Recommendations

The incoming government should:

- 1. Use forward liability alongside outcome measures to evaluate social programmes.** Forward liability estimates should be retained and reported annually, but programmes should also be assessed against post-benefit employment, health and wellbeing outcomes. Programmes that fail across these measures should be redesigned or discontinued.
- 2. Implement portable housing subsidies.** Housing voucher pilots in Auckland and Wellington, equivalent in value to current Kainga Ora per-unit subsidies, would enable recipients to access private rental accommodation that meets their needs.
- 3. Transition aged care toward consumer-directed funding.** The South Island case-mix pilots should be the starting point for a transition toward fully portable budgets, giving recipients rather than providers control over care choices.
- 4. Pilot mental health personal budgets.** The Social Investment Fund should be used to establish individualised funding pilots for mild-to-moderate mental health conditions.
- 5. Make outcome data a standard condition of social-service contracts.** New contracts from 2027 should include agreed outcome measures, data-quality expectations and secure reporting arrangements, with persistent non-compliance triggering contract review.

ENVIRONMENTAL POLICY

CHAPTER 17

Resource Management

A well-designed planning system is a key component of a prosperous economy. It clarifies public infrastructure requirements and establishes a largely permissive framework within which private actors determine where homes are built, where businesses operate, and how capital is deployed. When planning fails, families are priced out of home ownership, businesses are unable to expand, and infrastructure development is deferred until a crisis forces action.

New Zealand's planning system has failed for more than three decades. The Resource Management Act (RMA) 1991 was conceived as a streamlined effects-based framework – meaning one focused on the environmental effects of an activity. Instead, it has yielded delay, cost and obstruction. By 2023, both major parties had recognised its failure and sought reform. Labour's attempted reforms through its Natural and Built Environments Act and Spatial Planning Act were substantive efforts to redesign the system, although they lasted barely four months before being repealed by the incoming Luxon Government.

The Luxon Government has also pursued significant planning reforms. Its three-phase programme aims to substantially restructure New Zealand's planning system. It is comparable in ambition to Labour's earlier efforts through its National Policy Statement on Urban Development (NPS-UD) and Mandatory Density Requirements Scheme.³⁸⁷ In December 2025, the Government introduced the Planning Bill and Natural Environment Bill to Parliament.³⁸⁸ The Minister's intentions were sound, but the Bills fall well short of achieving those intentions.

Research by Daron Acemoglu, Simon Johnson and James A. Robinson, who won the 2024 Nobel Prize in Economics for that research, found that secure and well-defined property rights and the rule of law are central to national prosperity.³⁸⁹ Countries that protect property rights and constrain state appropriation grow wealthier. Countries that do not, decline. New Zealand's new resource management laws are about deciding how much the government can control land use and development, and how much it should protect people's rights to use and own property.

Problems with 1991 Act

The architects of the 1991 RMA created what economists call a tragedy of the anti-commons. Too many players with no skin in the game have power of veto over development decisions. As a result, change in land use, including development, became prohibitively difficult.³⁹⁰ The Act had five significant structural flaws:

1. It failed to define the problem that “sustainable management” (using natural and physical resources in a way that meets present needs while protecting the environment for future generations) was meant to solve. Its ill-defined coverage allowed planners to regulate almost anything while providing no principled basis for deciding when regulation was warranted.
2. It required consideration of environmental effects but not the costs of declining or delaying consent. When a housing development is blocked, families are deprived of housing opportunities, workers must

commute further, and economic activity is displaced. The RMA was structurally incapable of weighing these costs.

3. Its liberal standing rules created a ‘neighbours’ veto.’ Existing residents were empowered to block change that might benefit the wider community. Combined with the merits-based appeals (a fresh look at the facts and judgment, rather than a narrow check for error) to the Environment Court it enabled, every development, large and small, became a potential litigation risk.
4. Local authorities bore the costs of infrastructure for development while central government captured most of the tax revenue from their growth. Councils therefore had every reason to restrict development and no fiscal reward for enabling it.
5. Rural-urban boundaries inflated land prices across entire urban areas. Land inside Auckland’s urban boundary is valued at almost \$1,300 per square metre more than land just outside, after accounting for conversion costs – over \$600,000 for a 500 square metre section.³⁹¹ Tauranga has a differential of \$1,100 per square metre; for Wellington, Hamilton and Queenstown, the differences are in the range of \$400–\$500 per square metre.³⁹²

The government’s reform agenda

The Luxon Government’s reform programme has proceeded in three phases. In the first phase, within weeks of taking office, it repealed the Natural and Built Environments Act and the Spatial Planning Act.³⁹³ Although these Acts had proceeded from the Ardern government’s recognition of system failure, the Luxon Government’s assessment was that they would have created a more centralised system and not adequately addressed the RMA’s fundamental incentive failures.

In Phase two, the Fast-track Approvals Act 2024 established a streamlined pathway for significant infrastructure and development projects.³⁹⁴ Amendments to the existing RMA and national policy directions enabled faster consenting and reduced red tape, to deliver housing, infrastructure, renewable energy, and primary-sector development in a timely fashion.³⁹⁵ The Going for Housing Growth programme, announced July 2024, committed to removing rural-urban growth boundaries in Auckland and other major cities.³⁹⁶

While these reforms demonstrated intent and provided immediate relief, nothing done under the existing RMA framework can be truly sufficient given its structural flaws.³⁹⁷

In Phase three, an Expert Advisory Group produced a ‘blueprint’ for reform following Cabinet decisions on principles for the Planning Bill and the Natural Environment Bill – the legislation intended to replace the RMA.³⁹⁸ The two-Act structure separates land-use planning from environmental management in a similar manner to Labour’s dual Bills.³⁹⁹

Three features of the Bills deserve acknowledgment. First, the Planning Bill explicitly excludes internal site matters, visual amenity, private views, trade competition effects and financial viability from the scope of regulable effects.⁴⁰⁰ Second, 1,175 bespoke zones across more than 100 district plans will be replaced by nationally standardised zones within 17 regional combined plans.⁴⁰¹ Labour’s proposed Natural Built Environments Act had similarly intended to mandate standardised zoning through a National Planning Framework. Third, a regulatory relief framework requires councils to provide compensation when planning controls significantly impact the reasonable use of land. Options include cash payments, rates reductions, bonus development rights and land swaps.⁴⁰²

Officials estimate that close to half of all RMA consents (between 15,000 and 22,000 annually)

could be eliminated.⁴⁰³ The transition arrangements are sensible. Existing consents are extended to mid-2031, and consent holders can choose whether to enter the new system early – from mid-2026 – or to wait.

Concerns that warrant select committee attention

The Bills' direction is sound. But several structural features require correction, each flowing from a single architectural decision, the consequences of which have been underestimated.

Although the two Bills are large and complex, the government has delegated too much operative substance to national direction and secondary instruments. The reasoning behind this is defensible – the RMA was overloaded with prescription, and secondary instruments allow faster course correction. However, a lean Act must contain provisions to ensure that the intent of the new system (to respect property rights and be more enabling of growth and development) is carried into the national direction and secondary instruments. It also requires fail-safe mechanisms that prevent delegated powers from being exercised in ways that undermine the system's purposes. Without statutory mandate for those mechanisms, the Bills articulate the right aspirations but withhold the operative provisions necessary to achieve them.

The leanness also leaves the legislation open to regulatory subversion. A future government could rewrite every national instrument without changing a single clause of the Act. That could reshape the entire planning system through secondary instruments. The leanness intended to provide stability (by being able to accommodate the policy positions of different governments) instead provides maximum legislative freedom to future Ministers.

The goals of the Planning Bill include ensuring that land use does not “unreasonably affect others” and protecting environmental values

from “inappropriate development.”⁴⁰⁴ Neither term is defined. The Government's position is that carry-over RMA case law will supply definitions. This is mistaken, however – meaning in law is framework-dependent.

The Bills create a different statutory hierarchy, with goals at the apex and requirements for all downstream decisions to be consistent with the goals. When courts consider whether national direction has properly particularised a goal, they will interpret it within this new framework, not the RMA's. Clause 56 of the Planning Bill makes the Minister's satisfaction a formal statutory threshold, a standard ground for judicial review.⁴⁰⁵ Undefined apex terms do not delegate content to Ministers through policy; they delegate it to courts through litigation.

This has happened before. In the State-Owned Enterprises Act 1986, the ‘principles of the Treaty of Waitangi’ were left undefined at the apex of a hierarchical scheme. Court interpretation of the term then shaped the operation of every subsequent statute using the same formulation. The Planning Bill makes a structurally identical choice.⁴⁰⁶ Parliament should specify content rather than leave that task to judges.

The regulatory relief threshold in Schedule 3, clause 62 of the Planning Bill (“significant impact on the reasonable use of land”) is too high. Moreover, no principle is provided to determine compensation.⁴⁰⁷ Many landowners will suffer real economic loss that falls short of that threshold and receive nothing. A lower standard of “material impact on the value or reasonable use of land” would be more appropriate, with compensation when restrictions reduce assessed property value by a defined percentage. But if councils are to be incentivised to assess benefits in the light of costs, they need to be potentially liable to fund those costs, or to find beneficiaries who will.

The regulatory relief provisions of the Natural Environment Bill cover only biodiversity,

significant natural areas and Māori sites.⁴⁰⁸ Freshwater limits, air quality limits, coastal water limits and discharge restrictions provide no avenue for relief, regardless of impact severity.⁴⁰⁹ For primary industry, freshwater limits are often the binding constraint on the use of land. Excluding them is inconsistent with the Government's professed property rights principles.

Neither Bill requires decision-makers to identify the common law that justifies intervention, or to demonstrate that proposed restrictions produce net benefits compared to alternatives. The same asymmetry that corrupted the RMA (environmental effects triggered regulation while economic costs were invisible) is reproduced here. The funnel architecture amplifies this concern, because errors in higher-level instruments cascade through the entire system and cannot be corrected downstream.

National instruments will determine environmental limits, zone definitions, planning methodologies and relief frameworks for entire regions, for decades. The Government has committed to finalising national policy direction within nine months of the Bills becoming law. This timeline is aggressive. Rushed instruments will probably contain errors that become embedded for years. The pressure to meet deadlines should not override the need to get instruments right.

Cross-party support and durability

Labour's Natural and Built Environments Act and Spatial Planning Act lasted barely four months before the incoming Coalition repealed them. The merry-go-round of RMA reform has imposed enormous costs on businesses, councils and households trying to make long-term decisions. The Government has sought cross-party engagement on the replacement Bills.⁴¹⁰ Labour has indicated it could support much of the reform.⁴¹¹ Cross-party agreement on the core architecture, particularly the fail-safe

mechanisms described in this chapter, would provide insurance against reversal for which no amount of good policy design can substitute. The best additional protection is successful implementation that demonstrates tangible benefits before the political cycle turns.

What the select committee must address

Four elements of the government's agenda cannot be addressed through national direction and must be resolved in primary legislation. These are fail-safe mechanisms –provisions that constrain how delegated powers are exercised. They cannot, by definition, be located in instruments produced by those powers.

The property rights presumption

When councils restrict land use, the value of affected property falls. In the absence of principled compensation, the owner bears the full burden of that lost value. This is the situation under current law and effectively imposes a discriminatory tax. It encourages over-regulation because councils capture the political benefits of appearing protective while property owners bear the (invisible) costs. The 2023 *Prescription for Prosperity* recommended compensating property owners for regulatory takings.

The 2024 Cabinet paper stated the starting point for the replacement system “should be the enjoyment of property rights and respect for the rule of law.”⁴¹² The Bills, however, are not based on that principle. Neither Bill includes a statutory presumption that land use is permitted unless restricted for specified reasons. Property rights appear as a background consideration, reflected in scope exclusions and regulatory relief provisions, but nowhere does the statute establish the default position the Government announced.

A statutory presumption honouring that commitment would be that landowners may use their land as they see fit, subject only to

restrictions necessary to manage material adverse effects on others. A requirement that beneficiaries of restrictions compensate affected owners would force weighing of costs and benefits. The allocation of compensation responsibility depends on who benefits. When an environmental restriction provides benefits that diffuse across ratepayers within a council area, the council (as representative of those beneficiaries) would bear the cost. When a restriction's benefits accrue to a narrower geographic area, that community could be offered the opportunity to accept a special ratings area that would levy them to compensate the affected owner. That would allow them to choose whether the benefit justifies the cost. When restrictions are imposed by central government without local-area beneficiaries, central government should bear the cost.

Any objection that compensation would be unaffordable simply proves the point: if restrictions impose costs so large that compensation is unaffordable, the costs likely exceed the benefits. Compensation reallocates an unaltered cost, and misidentifying who should pay creates perverse incentives. Councils incorrectly charged with compensating costs from central government restrictions will see those restrictions as unfunded mandates and resist them. If those paying for a restriction cannot be identified, decision-makers may give too little weight to restrictions that benefit the local community. A presumption in favour of compensation would make decision-makers more conscious of the costs their decisions likely impose on the community. Those costs take the form of lower value to potential purchasers.

None of this can sit in national direction. The purpose of a presumption in favour of landowner's property rights is to constrain how national direction is made. Locating it in the instruments those powers produce would be circular. It must be included in the primary legislation.

A meaningful net benefit test

Neither Bill currently requires decision-makers to demonstrate that proposed restrictions produce net benefits for New Zealanders before imposing them. National policy direction, environmental limits, and plan rules could all be made without systematic assessment of whether benefits exceed costs. The same asymmetry that corrupted the RMA, whereby environmental effects automatically triggered regulatory consideration while economic costs remained invisible, is reproduced in the new framework.

Section 32 of the RMA required an evaluation report assessing efficiency and effectiveness before making national instruments. The requirement was inadequate and quickly become ineffectual. It was often treated as a compliance exercise rather than a genuine discipline. But the appropriate response to an ineffective discipline is to replace it with a more effective one, not to remove it entirely. Nonetheless, the Bills removed section 32 without substituting any equivalent.⁴¹³

A meaningful net benefit test would require decision-makers to:

- Identify the problem with voluntary arrangements and the common law that justifies intervention
- Demonstrate that the proposed restriction produces net benefits compared to the best alternative, including doing nothing
- Quantify and publicly disclose costs and benefits, including impacts on property values and development potential

A put option for affected landowners

A put option would powerfully reinforce a net benefit test. Decision makers who know that poorly calibrated limits may trigger compensation obligations have strong fiscal incentives to ensure benefits genuinely exceed costs. That is a more durable discipline than any evaluation report.

The regulatory relief framework addresses the symptoms of over-regulation without treating the cause. The deeper problem is that decision-makers who can impose restrictions without bearing any fiscal consequence will always be biased toward restriction. Costs are concentrated on individual landowners while benefits are diffuse. When no one who benefits or decides must pay for that transfer, there is no incentive to carefully calibrate restrictions.

A put option would change this. When regulation effectively removes existing or reasonably expected uses of land (reducing its value beyond a defined threshold) the affected landowner should be able to require the decision-making entity to purchase the property at its unimpaired market value. This is consistent with the approach conferred as of right under the Public Works Act for physical takings. It provides self-executing discipline. Decision makers who know they may face a purchase obligation will weigh costs and benefits much more carefully.⁴⁴⁴

The put option also cuts through the procedural complexity that makes the existing regulatory relief framework largely unworkable in practice. Disaggregating the impact of multiple overlapping planning instruments on the value of a specific piece of land is genuinely difficult. The put option bypasses that complexity. If the owner believes the net impact exceeds the threshold, they trigger the obligation and valuation resolves the question. For site-specific overlays (heritage listings, significant natural area classifications, outstanding landscape designations) compensation negotiated before the overlay takes effect would achieve the same discipline, but at the point of imposition rather than after the fact.

Competitive urban land markets

The Planning Bill includes a statutory goal to “enable competitive urban land markets.”⁴⁴⁵ This is a material improvement over the status quo. For the first time, competitive land markets appear in legislation rather than merely in subordinate policy. But the Bill lists the goal without defining

competitive urban land markets or embedding necessary directive provisions for mechanisms to implement this new paradigm. There is no statutory trigger for releasing new land, no price-signal test for diagnosing scarcity, and no mechanism to trigger action when property values suggest that urban land markets are uncompetitive.

The Act carries over a critical error from the previous system. It treats the provision of development capacity in terms of “sufficiency” as a volumetric concept (i.e., counting hectares and dwellings against forecast demand). Instead, it must be understood as a market-structure concept – whether the planning system creates effective competitive pressure in land markets. A council can satisfy every formal obligation in the Bill while still presiding over declining affordability and systematic extraction through scarcity rents.

Scarcity rents arise when credible alternatives are absent at the margin. When urban and rural land prices diverge substantially at the urban fringe, the planning system has decoupled land prices from their rural opportunity costs. This is a hallmark of an uncompetitive market and a clear signal that planners need to allow more urban land to be zoned for development, in order to maintain affordability.⁴⁴⁶

The Bill embeds no requirement to monitor land prices or land price differentials. Nor does it mandate mechanisms to release land when competitive conditions are not met. Thus, the Act does not empower land market policy, underpinned by urban economics, to guide the planning system. Any land market policy can only be developed through national direction, directed by the Minister of the day.

Implementation risk

Like the current Bills, the RMA was conceived as a streamlined, enabling framework. Its erosion into dysfunction happened incrementally as

interest groups secured carve-outs and courts developed doctrines the legislation never intended. Similar risks threaten the replacement system.

Complex legislation accumulates amendments and exceptions during the select committee process. Each change may seem reasonable in isolation; cumulatively they can gut the reform's intent. The Government will need disciplined political leadership to resist demands for carve-outs. Every exception creates precedent for more.

As discussed above, undefined goal terms create significant scope for judicial expansion. The legislation must be drafted with sufficient precision to constrain judicial creativity. The Environment Court developed doctrines under the RMA that went well beyond legislative intent; the replacement system should consider whether alternative dispute resolution mechanisms might better serve a property-rights-based framework.

While the Going for Housing Growth programme committed to removing rural-urban boundaries as planning tools, the 30-year capacity target creates a risk of statistical boundaries through the back door if councils use conservative growth projections to minimise planning obligations. Capacity modelling should monitor outcomes, not constrain development.

The risk of political reversal is endemic to the system. Lean primary legislation gives future Ministers considerable freedom to reshape the system through secondary instruments. The fail-safe mechanisms described above would make reversal harder. The abandonment of Labour's NBEA/SPA framework is well-documented. Less often acknowledged is the Luxon Government's own reversal on MDRS density targets: the Government initially offered councils an opt-out from MDRS if they provided housing targets at least equivalent to what MDRS would deliver, initially set for Auckland at two million new dwellings. That commitment was subsequently

reversed downward to 1.6 million and then 1.4 million, undermining the integrity of the mechanism. The best protection against political reversal is successful implementation that demonstrates tangible benefits (faster consenting, more housing, lower costs) before the political cycle turns, combined with robust fail-safe mechanisms embedded in primary legislation that constrain the discretion available to future Ministers.

Fast-Track: necessary but temporary

New Zealand's chronic delays in delivering projects impose real economic costs, and the streamlined pathway for significant projects makes sense as a temporary measure. The regime has features that deserve acknowledgment.

The current threshold – whether proposals have “significant regional or national benefits,” allows ministers to approve projects whose costs exceed their value. The Act should require fast-tracked projects to demonstrate net benefits, not just gross ones.⁴¹⁷

The legislation restricts appeal rights, erodes the independence of the Environmental Protection Agency, enables Order in Council approvals to override existing legislation, and allows applicants to challenge members of independent panels.⁴¹⁸ These features are defensible if they are exceptional and temporary, but not if they are permanent.

Early panel decisions show worrying variability in the rigour of cost-benefit assessment. Without clear statutory direction, approval becomes something of a lottery depending on which panel applicants face.⁴¹⁹

Fast-track consenting is a workaround for a broken system, not a solution to it. It allows selected projects to bypass dysfunction rather than fixing it for everyone. The incoming

government should treat it as scaffolding to be removed once the building is complete, not a permanent second track where political favour determines which projects escape the queue.

The broader context

Planning reform cannot succeed in isolation. Housing affordability depends on councils having incentives to enable growth, not just permission to do so. The revenue-sharing and financing reforms discussed in Chapters 10 and 14 are essential complements: without aligned incentives, councils will find ways to obstruct development regardless of what the planning rules permit. Similarly, building consent reform and infrastructure investment must align with planning liberalisation. A system that enables development applications means little if building consents remain slow, and infrastructure funding remains dysfunctional. The goal is a coherent framework whereby private initiative can meet housing demand, supported by infrastructure that councils have both incentive and the capacity to provide.

Recommendations

The incoming government should:

- 1. Improve and pass the Planning and Natural Environment Bills.** The Bills are an advance on the RMA but need improvement to restore the government's original intent to base replacement legislation on property rights.
- 2. Make the property rights foundation meaningful.** Pressure to qualify or dilute the presumptive right to develop should be resisted. If the property rights principle does not constrain regulatory decisions, it is not a principle.
- 3. Embed a statutory property rights presumption.** Both Bills should be amended to include an overarching presumption that landowners may use their land unless restriction is justified by reference to specific, evidence-based criteria.
- 4. Require a meaningful net benefit test for all national instruments and environmental limits.** Both Bills should require identification of the least restrictive means of achieving the stated objective.
- 5. Provide a put option for affected landowners.** When regulation effectively removes existing or reasonably expected uses of land, affected landowners should be able to require the Crown to purchase their interest at fair value.
- 6. Embed competitive urban land markets in primary legislation.** Replace "sufficient development capacity" with "competitive urban land supply" as the statutory test, defined by legal availability, economic substitutability, simultaneity and credible threat of entry.
- 7. Define key goal language.** "Unreasonably", "inappropriate" and "participation" should be defined in the interpretation provisions, or national direction should specify how they are to be applied.
- 8. Allow adequate time for national instrument development.** Pressure to meet the nine-month deadline at the cost of instrument quality should be resisted.
- 9. Pursue cross-party agreement on core architecture.** The select committee process should be used to build durable consensus on fail-safe mechanisms that will outlast any single government.

10. Treat fast-track as temporary. A sunset clause should phase out the fast-track pathway within two years of the Planning Act taking full effect.

11. Use price signals to test planning success. The independent expert panel should monitor boundary price differentials and other market indicators to assess whether planning is delivering competitive land supply.

12. Align local government finance with planning objectives. The revenue-sharing and financing reforms discussed in Chapters 10 and 14 should be treated as integral to the planning reform programme.

13. Monitor and report on outcomes. Clear metrics for reform success, including consenting timeframes, housing supply, infrastructure delivery and compliance costs, should be established and published regularly.

CHAPTER 18

Climate Change

New Zealand's Emissions Trading Scheme is meant to reduce carbon emissions in the sectors covered by the scheme. When the Luxon government took office in late 2023, it inherited a functioning carbon market. The ETS had operated continuously since 2008, strengthening over time across multiple governments. It provided the necessary price signals to drive emissions reductions. It represented a durable policy achievement in a domain notorious for political instability.

The Initiative has recommended strengthening the ETS to make the market more durable through 2050 and beyond.⁴²⁰ Unfortunately, the Luxon government has somewhat degraded the ETS.

If the current trajectory continues, the ETS risks becoming less credible. That is likely to lead to it being supplemented by command-and-control regulations, making the path to net zero far more costly.

The ETS as primary instrument

The Initiative's 2023 *Prescription for Prosperity* recommended using the Emissions Trading Scheme as New Zealand's primary tool for reducing greenhouse gas emissions.⁴²¹ This recommendation reflected both economic logic and practical experience.

A well-designed emissions trading scheme sets a cap on total emissions. Emissions permits allocate rights to emit carbon. The market determines where reductions occur most efficiently through its price calculation mechanism. Emitters who can reduce cheaply do so and can sell surplus permits; emitters

facing higher abatement costs can then buy those surplus permits. The result is that any given emissions target (determined by the cap) is achieved at the lowest total cost to the economy.

An important thing to note about a comprehensive ETS is that any supplementary measures introduced alongside it can do nothing to achieve further emissions reductions. Total emissions are set by the cap. Any further measures only distort price signals and move reductions from one economic sector to another. For example, if a subsidy on electric cars causes a fall in petroleum-related emissions, petrol distributors will use less of their allocation than expected. They will then sell the permits for their surplus allowance, and the emissions that would otherwise have been generated by cars will be generated elsewhere in the economy instead. The only mechanism by which emissions can be further reduced is to lower the cap, which governments can do, at the cost of increasing the price of emitting for everyone.

By 2023, the ETS covered around half of New Zealand's gross emissions, including energy, industrial processes, and waste.⁴²² It had successfully incorporated forestry as an offset mechanism, creating incentives for carbon sequestration that aligned private returns with public goals. And it had survived the political turbulence that has killed carbon pricing in other jurisdictions.

The Luxon government nominally accepted the framework. Climate Change Minister Simon Watts repeatedly affirmed the ETS as the government's "main tool" for emissions reduction.⁴²³ But policy changes risk eroding the ETS's credibility.

Removing ineffective non-ETS measures

The government has laudably removed costly policies that duplicate or undermine the ETS.

The Clean Car Discount – colloquially known as the “ute tax” – was repealed in December 2023.⁴²⁴ This feebate scheme had imposed charges of up to \$6,900 on high-emission vehicles and subsidised electric and hybrid purchases. By the time of its repeal, the scheme had paid out \$579 million in rebates while collecting only \$290 million in fees, leaving taxpayers with a \$302 million deficit.⁴²⁵

The Clean Car Discount suffered from what the Initiative has termed the “waterbed effect.”⁴²⁶ As explained above, within a capped emissions trading scheme, policies that reduce emissions in one sector do not reduce total emissions – they simply redistribute where emissions occur within the cap. The Clean Car Discount could change which vehicles New Zealanders purchased, but not the total quantity of emissions permitted under the cap. Subsidies like this only increase the cost of achieving any given target. The government’s decision to repeal the Clean Car Discount was therefore sound policy. The Government Industrial Decarbonisation Investment (GIDI) fund was similarly wound down, removing another costly intervention that distorted ETS incentives.

The Initiative’s 2022 report *Pretence of Necessity* explains in detail why non-ETS climate policies – feebates, efficiency mandates, sectoral subsidies – cannot reduce net emissions from under an emissions cap.⁴²⁷

What the Government got wrong

While the government removed some ineffective policies, it simultaneously undermined the only effective one. Three decisions have damaged ETS credibility – removing agriculture from

the scheme, restricting forestry participation, and delinking the ETS from international commitments.

Agriculture

In November 2024, the government passed legislation permanently removing agriculture from ETS coverage.⁴²⁸ This undid years of work toward bringing the sector – responsible for approximately half of New Zealand’s gross emissions – under a pricing mechanism.

The agricultural exemption had been in place since the ETS was first implemented but the original ETS legislation envisaged eventual inclusion. The He Waka Eke Noa partnership between government and the primary sector had been working toward an alternative pricing mechanism. The government’s decision to abandon this work, with no alternative framework in place, sent a clear signal that political pressure can secure permanent exemptions from climate obligations. Worse, it locked in a distortion in the ETS, potentially subsidising agriculture at the expense of other sectors.

Forestry

In December 2024, the government announced restrictions on farm-to-forestry conversions registering in the ETS.⁴²⁹ The policy imposes a moratorium on exotic forestry registrations on Land Use Classification 1-5 farmland and caps registrations on LUC 6 land at 15,000 hectares annually.⁴³⁰

The policy reflects legitimate concerns about wholesale conversion of productive farmland. But it also creates another distortion of the ETS mechanism by restricting the most cost-effective sequestration option available to landowners.

If incentives created by the ETS result in localised problems, whether with forestry conversions or in other areas, solutions should be targeted at those problems. For example,

forestry conversions could be made a consented activity where communities wish to limit those conversions. It would be a violation of property rights – but so are restrictions on conversion of land by Land Use Classification (LUC) type.

Planting exotic trees is currently New Zealand’s primary tool for meeting Paris Agreement emissions reduction commitments.⁴³¹ Restricting the option for landowners to convert to forestry simply makes reductions more expensive to achieve and signals to markets that ETS settings are not stable foundations for long-term investment, but political variables subject to revision when constituencies complain.

The sole purpose of the ETS is to reduce net greenhouse gas emissions at lowest possible cost. Along the path to Net Zero, all kinds of problems will be discovered. A clean ETS facilitates the discovery of the cheapest solution to each of those problems as it arises, through the price mechanism. If instead the ‘solution’ is to carve an exemption into the ETS, the path to net zero will be far more painful.

Delinking from Paris

In November 2025, the government announced it would remove the requirement for ETS settings to accord with New Zealand’s Nationally Determined Contribution (NDC) under the Paris Agreement.⁴³² The stated rationale was that the ETS is a “domestic policy instrument that should align solely with domestic targets.”⁴³³

Revising New Zealand’s Paris commitment – or withdrawing from Paris entirely – would not necessarily be a problem for the ETS. But the Paris Agreement provided stable expectations about the number of ‘unbacked’ carbon units the government would auction or allocate between now and 2050. That number has never been legislated. De-linking the ETS from Paris would have been less of a problem for the ETS had it been accompanied by a new long-term anchor for expectations.

The unbacked units problem

A structural problem in the ETS that predates the current government is the lack of a firm commitment to the quantum of net emissions allowed. Every year, the government creates carbon units to be sold on the domestic markets. These are called New Zealand Units (NZUs). Each NZU is a licence to emit one tonne of carbon. It allocates some NZUs to industry free of charge, to avoid ‘carbon leakage’ – the risk of rising domestic carbon prices pushing production to countries with weaker climate policy. It puts the remaining units up for auction. Units that are not sold at auction are held over for future auctions in the same year. If they are not sold by the end of the year, they are destroyed.

When a tonne of carbon is sequestered, a new NZU is generated, and can be sold by whoever generated it. We can consider these units as ‘backed’ units, because they are backed by equivalent sequestration. If a backed unit is produced, sold, and redeemed, there is no net emission consequence, so long as the accounting is correct. The NZUs created annually by the government are ‘unbacked’ because they result in emissions that are not accounted for by sequestration.

Under the ETS, New Zealand’s future net emissions from covered sectors depends on the number of unredeemed, ‘unbacked’ NZUs, and those that may yet be created. That quantum is the real cap on New Zealand’s net emissions.

The quantity of outstanding unbacked NZUs is known. The Climate Change Commission (CCC) has repeatedly flagged these stockpiled units as a problem. But if the government is targeting a set volume of net emissions over the long term, it simply needs to consider the quantity of stockpiled units when deciding how many new units to create. The only ‘problem’ created by stockpiled units is uncertainty about whether one might be redeemed on this side or the other side of an arbitrary carbon budget period.

The number of units the government intends to release for the next several years is known – though the number of units taken up is not. The government sets a floor price when auctioning unbacked NZUs. If that price is substantially above the cost of generating ‘backed’ units through sequestration activities, the unbacked units will not sell at auction and will, at the end of the year, be destroyed. The number of unbacked units to be created each year is not legislated. It is, however, anchored by expectations set by the Paris Agreement.

The Initiative has previously recommended legislating the number of new unbacked units that can be auctioned or allocated.⁴³⁴ Each year’s issuance would draw from that fixed pool. Each newly issued NZU could come with a right of action against the government for compensation for over-issuance. If the government commits to releasing only a fixed quantity of unbacked units and proceeds to issue more than that number, it would be considered a form of securities fraud against existing holders and against those who have undertaken costly actions to generate new NZU through sequestration.

That kind of commitment brings risk that domestic carbon prices could exceed overseas prices. If that occurs, it is a signal that there are more cost-effective opportunities elsewhere for reducing global emissions.

Currently, if carbon auction prices exceed a trigger value, additional unbacked NZUs are released to the market from the cost-containment reserve in the annual carbon budget. The government should abolish the cost-containment reserve. Instead, CCC should designate which international emissions trading schemes are credible – schemes under which a carbon credit that is purchased and never redeemed truly represents a one tonne reduction in net emissions. If the carbon price in New Zealand exceeds the average price in those markets, the government could purchase units abroad to ‘back’ the release

of additional NZU for domestic auction. Under that mechanism, domestic carbon prices would never materially exceed average prices abroad.

Recognising Durable Sequestration

The Net Zero Act targets net, rather than gross, emissions. But the atmosphere does not care whether a tonne of net emissions is saved because it was not emitted in the first place, or because it was durably sequestered.

Carbon forestry is currently the lowest-cost technology for durable sequestration. Durability is ensured by requiring NZUs to be surrendered when forests are harvested or return sequestered carbon to the atmosphere for other reasons. Carbon forestry could be made more durable if it proved cost-effective to bury harvested carbon forests (where they would turn to coal after about 250 million years). Other technologies for durable sequestration are in development, including carbon mineralisation and oceanic sequestration.

None of these technologies are guaranteed to prove either cost-effective or effective. But investors in these technologies should be betting on their scientific potential, untroubled by risk that proven sequestration will not be recognised by NZU issuance. An in-principle decision that durable sequestration in any form will quickly be evaluated and, if successful, awarded NZU for proven sequestration would encourage investment in sequestration technologies.

Recommendations

The incoming government should:

- 1. Restore a credible path for future unit release.** Either restore the link between the ETS and Paris commitments, or legislate the total number of unbacked units available to be auctioned or allocated between now

and 2050. Investors need certainty about the supply trajectory.

2. Refocus the Climate Change Commission.

The CCC's mandate should be shifted away from setting binding carbon budgets toward analysis, monitoring and advice. It should assess whether the ETS is functioning effectively rather than directing emissions reductions sector by sector.

3. Reinstate the agricultural pathway.

A credible timeline for pricing agricultural emissions should be established. The split-gas framework, which distinguished long-lived and short-lived gases, was sound. Exempting agriculture permanently undermines the ETS's coverage and credibility.

4. Recognise sequestration and deal with adverse effects through separate policies.

If permanent exotic forestry creates land-use problems in specific regions, those problems should be addressed through targeted instruments rather than by distorting the ETS price signal.

5. Pursue international market linkage.

Replace the cost-containment reserve with a commitment to purchase credible international units at the price cap, ensuring the New Zealand carbon price does not exceed the price in comparable jurisdictions.

6. Mandate cost-per-tonne assessment.

Require rigorous cost-effectiveness analysis for any proposed non-ETS climate policy. If a regulation cannot demonstrate cost-effectiveness relative to the ETS price, it should not proceed.

CHAPTER 19

Freshwater

New Zealand's freshwater management presents one of the country's most persistent policy challenges. The main problems – scarcity of water and finite capacity for water bodies to absorb pollutants – are economic, but successive governments have been reluctant to treat them as such. The incoming Luxon government inherited a regulatory framework that imposed substantial compliance costs without resolving underlying allocation problems – how to manage rights to use fresh water or to discharge pollutants – and a set of unresolved Treaty claims obstructing institutional reform.

Since 2019, the Initiative has argued that smart cap-and-trade markets offer the most promising path to better freshwater management, at least in catchments large enough to sustain such a market.⁴³⁵ Designed well, these systems have potential to deliver environmental protection through binding caps while achieving efficiency through tradeable rights.

The Luxon government has not adopted this approach. Instead, it has pursued regulatory simplification. That approach addresses some legitimate concerns but leaves the allocation problem unsolved.

The case for cap and trade

The Initiative's freshwater research rests on the proposition that cap-and-trade systems work in two distinct domains – water allocation (the right to draw water) and nutrient management (the right to discharge pollutants). The mechanics of each differ but the principle is identical. Environmental limits are set and users can trade allocations within those limits. Those who value

water most highly purchase rights from those who can reduce their use most cheaply. The cap guarantees environmental protection and trading delivers efficiency. The underlying mechanisms are nearly identical to those of the Emissions Trading Scheme for managing carbon emissions.

Refreshing Water (2019) set out a case for extending this approach to freshwater allocation.⁴³⁶ It argued that reluctance to address incipient iwi water claims prevented progress on allocation-based approaches. It suggested a regime under which, over time, existing users' rights would be eroded, and iwi allocations built up in catchments in which iwi water claims warrant allocations.

It recommended the smart-market approach developed by the University of Canterbury and RAND Corporation researchers to protect environmental amenities while enabling frictionless trading in water allocations.

Fording the Rapids (2021) developed the argument further and extended it to nutrient management. Both reports recommended that the Crown fund development of cap-and-trade infrastructure and initiate a trial in Canterbury.

Prescription for Prosperity 2023 carried these recommendations forward.

What the Government has done

The Luxon government moved decisively on freshwater policy, but in a different direction from the Initiative's recommendations. It focused on regulatory simplification and burden reduction for primary producers, rather than cap-and-trade.

Legislative changes

The Resource Management (Freshwater and Other Matters) Amendment Act 2024 made several consequential changes.⁴³⁷ It removed the requirement for resource consent applicants to demonstrate compliance with Te Mana o te Wai’s hierarchy of obligations – a framework that ranked environmental protection above human uses of water. That hierarchy had created compliance costs and legal uncertainty. Removing it from consenting decisions was defensible on practical grounds.

The Act also amended section 107 of the Resource Management Act to allow discharge consents when they would cause adverse effects on aquatic life in already-degraded bodies of water requiring improvement over time.⁴³⁸ Low-slope land was exempted from stock exclusion requirements. Mandatory audited freshwater farm plans, previously linked to actual water quality outcomes, were replaced with industry-approved plans requiring so-called “best practice” – regardless of whether that practice actually produces cleaner rivers.⁴³⁹

The government froze regional council plan changes, prohibiting public notification of freshwater planning instruments before the replacement National Policy Statement for Freshwater Management takes effect.⁴⁴⁰

National direction consultation

In 2025, the government consulted on replacement national direction for freshwater. The consultation offered three options for Te Mana o te Wai:

- Removing the hierarchy while clarifying its application
- Reverting to the 2017 provisions
- Remove Te Mana o te Wai entirely⁴⁴¹

The government’s objective is to require councils to balance environmental, economic and community outcomes concurrently. It abandons

the previous hierarchy in favour of multiple, equally weighted objectives.

Cap and Trade

The government did not develop or implement cap-and-trade systems for water allocation or nutrient management. This is a missed opportunity. Regulatory simplification addresses compliance costs but does not create efficient allocation. It provides short-term relief to primary producers without solving the long-term problem of too many demands on a finite resource with no price signal.

The property rights barrier

The primary obstacle to implementing cap-and-trade is the absence of clear, tradeable property rights in water. This obstacle is inseparable from unresolved Treaty of Waitangi claims. The more a consent to draw water resembles a tradeable property right, the more likely it is to attract a Treaty challenge. Successive governments have therefore avoided clarifying water rights – which has prevented market development while doing nothing to resolve the underlying claims.

Claims now before the courts include Ngāi Tahu’s High Court case seeking recognition of rangatiratanga over freshwater in its takiwā⁴⁴² and Tātau Tātau o Te Wairoa Trust’s claim, filed in February 2025, seeking recognition of iwi and hapū rights over freshwater within Wairoa.⁴⁴³ A broader national claim by the Wai Manawa Whenua coalition, representing over 150,000 Māori landowners, was filed in June 2025 seeking recognition of tikanga Māori and proprietary rights in water and geothermal resources.⁴⁴⁴

The government has not pursued negotiated resolution. It has left these questions to litigation – a slower, more adversarial, and less flexible process than political settlement. Yet negotiated solutions are possible. Resolving iwi claims to water is necessary in and of itself. Property rights

matter, and legitimate claims in catchments where rights were not ceded by Treaty, contract or sale deserve resolution. But resolution is also an essential precursor to better water management. Until property rights are defined – including iwi rights – cap-and-trade systems will face legal and political obstacles that regulatory reform cannot overcome.

Why regulatory flexibility is insufficient

The government’s policy direction assumes that reducing regulatory burden will improve both economic and environmental outcomes. This assumption deserves scrutiny.

Removing environmental constraints without putting market mechanisms in place to meet those constraints does not create efficient allocation. Rather, it allows those with existing consents to continue current practices. It does nothing for new entrants, who face the same consent processes. It permits continued pressure on over-allocated catchments. The fundamental problem – too many demands on a finite resource with no price signal – remains unaddressed.

The Canterbury Water Management Strategy illustrates the point, with its continuation with zone committees and collaborative planning.⁴⁴⁵ These processes have struggled with overallocation in catchments like Selwyn-Waihora and Hinds. A cap-and-trade trial in Canterbury could test whether market mechanisms might succeed where collaborative approaches have not.

What remains unaddressed

The government’s reforms since 2023 have reduced compliance costs for some primary producers and provided greater flexibility in consenting. These are not trivial achievements. However, regulatory approaches alone are

insufficient because they lack price signals to allocate scarce resources efficiently.⁴⁴⁶ Durable solutions require building constituencies with stakes in environmental outcomes – something that tradeable property rights achieve and regulatory flexibility does not.⁴⁴⁷

In the absence of a price mechanism, the first-in-first-served consent system continues to allocate water without regard to value or efficiency. Users who could reduce consumption at low cost have no incentive to do so. Users who would create high value from additional water cannot acquire it except through the consent process.

Iwi water claims remain under litigation. The government has not pursued a negotiated framework that would clarify property rights and enable market development.

Environmental limits lack the binding force that cap-and-trade would provide. The shift from hierarchy to concurrent balancing may reduce compliance costs, but it also weakens the environmental bottom lines that trading systems would enforce automatically.

Lake Taupo’s nitrogen cap-and-trade system demonstrated that nutrient trading can operate within a binding environmental cap, although the scheme’s design limited its effectiveness as a market. Each transaction required bespoke proof of nutrient equivalence, raising transaction costs to the point where the dominant buyer was the Lake Taupo Protection Trust – a publicly funded sump established to retire allowances and reduce overall nutrient load.⁴⁴⁸ A water allocation trial designed with lower transaction costs could test whether the market mechanism works more effectively for water quantity. And smart-market designs could embed environmental equivalence directly into the trading system.

Recommendations

The incoming government should:

- 1. Fund development of cap-and-trade infrastructure and initiate a trial.** The Crown should fund the technical systems, monitoring and institutional design needed for cap-and-trade in both nutrient discharge and water allocation. A trial catchment should be selected and operational within the current parliamentary term.
- 2. Pursue negotiated resolution of iwi freshwater claims.** Negotiated resolution is preferable to litigation. Settlement frameworks should be designed to be compatible with tradeable property rights in water.
- 3. Design tradeable property rights with appropriate transition arrangements.** Initial allocations to current consent-holders should be treated as the starting point for a market, not as permanent entitlements. Transition arrangements should be explicit and time-limited.
- 4. Ensure binding caps with effective enforcement.** Cap-and-trade systems require binding, environmentally meaningful caps and effective monitoring. Caps set above current discharge levels will not drive improvement.
- 5. Enable local innovation within national frameworks.** The replacement National Policy Statement for Freshwater Management should provide a framework for catchment-level cap-and-trade while allowing regional councils flexibility in implementation.

REGULATION

CHAPTER 20

Regulatory Stewardship and Governance

New Zealand's regulatory system is evolving. Since the 2023 election, the Luxon Government has made significant changes. It established a Ministry for Regulation, passed the Regulatory Standards Act 2025, and announced governance changes for the Commerce Commission.

More changes are in the pipeline. They include replacing the RMA with two new Bills, one for planning and the other for environmental issues.

While helpful, these measures sit amidst a risk averse and interventionist regulatory culture. The human capital necessary to make reforms effective has not been addressed. Accountability mechanisms for major regulators remain incomplete.

The cost-benefit framework and its implementation

The Government's Regulatory Standards Act 2025 will potentially strengthen regulatory discipline. It imposes a statutory requirement on Ministers, rather than just on Cabinet as a whole, to assess and report on the impact of new regulations. This aligns with our recommendation that all new and existing regulations should have demonstrated benefits for New Zealanders that exceed their costs.

The Ministry for Regulation, established in March 2024, consolidated previously fragmented stewardship responsibilities.⁴⁴⁹ As the central agency for regulatory quality, the Ministry now oversees Cost-Benefit Assessment (CBA) and Regulatory Impact Analysis (RIA) across government.⁴⁵⁰

The Regulatory Standards Act 2025 provides statutory backing for a principled approach to assessing regulatory proposals. It makes

compliance with the principles and explanations a Parliamentary mandate. The updated Cabinet Office Circular CO (24) 7 already requires systematic impact analysis for all regulatory proposals through a Regulatory Impact Statement (RIS).⁴⁵¹ Parliament will now have a greater ability to examine such statements for compliance with the new Act.

The need for this greater accountability is illustrated by previous compliance shortcomings. Quality assurance rates for Regulatory Impact Statements remain between 41 and 50 percent.⁴⁵² About half of all new regulations are inadequately assessed.

The Regulatory Standards Act is a mild measure, notwithstanding widespread opposition from academia, the public service, the public and opposition parties. It provides principles and transparency requirements but does not force compliance. It does not include penal enforcement mechanisms.

The extent of that opposition highlights the difficulties of trying to improve the disciplines in New Zealand on the quality of government regulation. When people want a regulation that benefits some at the expense of others, they may not want the case for that transfer to be scrutinised.

Regulatory review and stocktake initiatives

The Initiative's 2023 recommendation called for a comprehensive regulatory stocktake under senior ministerial oversight, subjecting existing regulations to the same cost-benefit review as new regulations. The government has partially

implemented this through Minister for Regulation David Seymour and the Ministry for Regulation.

The Ministry has conducted sector reviews with measurable results. The primary industries review identified \$272 million in potential economic gains through the removal of duplicative requirements.⁴⁵³ The Ministry established a “Red Tape Tipline” that generated over 750 public submissions, directly shaping reform priorities.⁴⁵⁴

The Regulatory Systems Amendment Bills, introduced in May 2024 and passed in March 2025, addressed commercial, energy, resource, and economic development regulations. These omnibus bills amended or repealed dozens of obsolete provisions.⁴⁵⁵

However, the sector review approach lacks systematic rigour. Current reforms rely on ministerial priority and public complaint rather than embedded processes for continuous improvement. Reviews are episodic rather than cyclical. Without mandatory sunset clauses or periodic reassessment requirements, regulatory accumulation will resume when political attention shifts.

Each sector review identifies specific regulatory problems but does not address the systemic incentives that create regulatory proliferation. Agencies face no consequences for maintaining unnecessary rules.

If the Regulatory Standards Act survives, it may provide the required regulatory discipline. Even so, as a mere transparency measure, it falls well short of the disciplines that could be imposed if it were politically feasible.

Cultural and behavioural dimensions

The Regulatory Standards Act 2025 created new institutions and requirements.⁴⁵⁶ These legislative changes have not yet taken effect. They cannot

be expected to quickly change the risk-averse ‘government knows best’ culture that characterises New Zealand’s regulatory intrusiveness.

The FMA demonstrated a more promising, less risk averse approach in permitting a ‘regulatory sandbox pilot’ from January to July 2025. The pilot allowed financial technology firms to test innovative products in controlled environments.⁴⁵⁷

Such initiatives remain exceptional. *Go Dutch: Learnings from The New Zealand Initiative’s Visit to the Netherlands* in 2025, examined how small nations can build regulatory cultures based on trust, competence, and results.⁴⁵⁸ The Dutch model contrasts sharply with New Zealand’s process-heavy approach.

The Public Service Commission has issued directives emphasising outcomes-based performance.⁴⁵⁹ However, these top-down efforts have not shifted New Zealand’s fundamental orientation to regulate heavily. Regulators continue to view their role as being to prevent harm rather than to foster innovative, law-abiding risk taking. Their governing legislation may impose this bias on them.

Existing laws need to be reviewed from this perspective. Safety and prudence are important, but innovation and risk-taking are too. If regulatory agencies are to be less opposed to innovation and change, the legislative environment in which they operate needs to change. Only when incentives match objectives is enduring cultural change possible.

Commerce Commission governance reform

In September 2025, the Government announced legislation to restructure the governance of the Commerce Commission.⁴⁶⁰ This reform follows the Initiative’s longstanding recommendation to replace the commission model with board governance.

Dame Paula Rebstock’s independent review confirmed the structural weaknesses the Initiative identified in its 2018 report *Who Guards the Guards?*⁴⁶¹ The review found that the commission’s model created inherent conflicts and lacked proper internal governance checks.

The Commerce (Commerce Commission Reform) Amendment Bill (**CCR Bill**), introduced in March 2026, will establish a Governance Board responsible for strategy, risk, and organisational capability.⁴⁶² Regulatory committees composed of commissioners will handle specific statutory decisions such as merger clearances. This aligns the Commission with the board governance model adopted for the FMA and more recently for the RBNZ under the Reserve Bank of New Zealand Act 2021. The Commerce Commission began internal restructuring on 1 October 2025. The Bill had its first reading on 26 March 2026 and commencement is scheduled for 1 July 2027.

The Initiative supports the Bill’s architecture but considers its design must be improved. The Bill requires the chief commissioner and deputy chief commissioner to sit on the governance board, preserving the governance/executive concertina the reform was designed to eliminate. On external monitoring and the quality of appointments, the Bill also falls materially short. Sections VI and VII below address those gaps, and the Initiative’s submission to the Finance and Expenditure Committee on the Bill sets out the full case.⁴⁶³

Prudential regulation

Prudential regulation and the institutional boundary

The Initiative has long argued that the central bank should focus on monetary policy and monitoring systemic risks to the banking and payments system. It should not be responsible for preventing the failure of individual banks.

Any role it has in regulating individual banks implies that banks complying with its strictures should not fail, and that the central bank is monitoring compliance conscientiously. These implications can conflict with a need to tighten monetary policy in response to inflationary pressures. Hence, the Initiative has argued that prudential supervision of individual banks should not be a central bank responsibility.⁴⁶⁴ The 2023 *Prescription for Prosperity* recommended establishing an APRA-style prudential authority, separate from the RBNZ, enabling the RBNZ to focus on monetary policy.

The Ardern-Hipkins government took a different path. The Deposit Takers Act 2023 “[promotes] the safety and soundness of each deposit taker”. The RBNZ is responsible for prudential licensing, supervision, standards, resolution, and deposit insurance for deposit takers. The Financial Market Authority (FMA) remains the main conduct regulator under separate regulation. The government has described this arrangement as a ‘twin peaks’ model.

The compliance costs and complexity of this regulation is potentially a formidable barrier to new banks entering the market. The Deposit Takers Act alone has 495 sections spread over 9 Parts. Its attached three schedules have an additional 32 sections.

In 2023, the government increased the RBNZ’s funding for 2024 and 2025 by a combined \$58 million just to meet its costs arising from the Deposit Takers Act, the Depositor Compensation Scheme and Project Waitoa (an initiative requiring banks to supply ATM services to communities).⁴⁶⁵

The boards of each individual bank have stronger inherent incentives than regulators to manage their bank’s affairs prudently and efficiently. Regulatory incentives are therefore largely gold-plated risk aversion.

Governance of the prudential function

In its submission to the Finance and Expenditure Committee (FEC) 2024 Banking Competition Inquiry, the Initiative recommended strengthening the governance of the RBNZ's prudential regulatory function.⁴⁶⁶ Three options were put forward: appointing board members with recognised prudential regulatory expertise; transferring prudential functions to a new APRA-style agency; or establishing a Financial Policy Committee (FPC) to govern financial stability policy, mirroring the Monetary Policy Committee. The last option was proposed as a pragmatic compromise, pending full institutional separation.

The FEC's August 2025 report recommended that the government pursue aspects of these paths. It called for the appointment of prudential regulation experts to the RBNZ board, creating a Prudential Policy Committee equivalent to the MPC, and requiring regular independent external reviews of the RBNZ's prudential performance.⁴⁶⁷

In October 2025 the RBNZ Board established a Financial Policy Committee (FPC).⁴⁶⁸ The Committee will oversee macroprudential tools and prudential standards. Importantly, it includes external members. This reform is a partial implementation of the Initiative's recommendation.

In its response to the 2025 Banking Competition Inquiry, the government declined to go further.⁴⁶⁹ In November 2025, it partially agreed with the FEC's recommendation, concluding that the board-delegated FPC could achieve governance improvements without the need to legislate for a statutory Prudential Policy Committee. It also deferred any commitment to independent external reviews.⁴⁷⁰

The FPC as constituted falls short of what the Initiative recommended and what the FEC proposed. It operates with a 5:2 internal-to-external voting ratio and lacks the statutory

footing of the MPC. RBNZ Governor Breman implicitly acknowledged the shortcoming, when she flagged a review of the FPC's equivalent statutory standing.

A recent episode provides a further illustration of why the governance reforms matter are needed. In February 2026 the RBNZ issued a major consultation proposing a mandatory cash-services standard on banks without identifying a statutory power supporting it.⁴⁷¹ The RBNZ was subsequently challenged – including by the Initiative – on whether the RBNZ had relevant regulation-making powers to implement its proposal.⁴⁷² The RBNZ's 24 April “legal-basis paper” conceded that the relevant access purpose in the Deposit Takers Act “lacks supportive regulatory powers” and identified a Cabinet-approved regulation as the route to fill that gap.⁴⁷³ While the episode does not involve prudential regulation, the board's failure to test the question before the consultation was issued is the same institutional weakness that the FPC reforms are intended to address.

Alongside stronger internal governance, the RBNZ needs an independent external mechanism to assess its prudential regulatory strategies and performance. The Ministry of Regulation should be tasked with this function – covering the RBNZ, the Financial Markets Authority, and the Commerce Commission. Both shortcomings – the FPC's inadequate statutory footing and the absence of independent external performance assessment – are addressed in the recommendations below.

A prudential framework that recognises efficiency and competition

The purpose of prudential regulation, like all regulation, is to make the community better off. That requires its benefits to exceed its costs. This is an efficiency test. The Initiative argued throughout the Ardern government's review of the Reserve Bank of New Zealand Act 1989 that this discipline should be preserved.⁴⁷⁴ Parliament

rejected those submissions. Section 9 of the resulting Reserve Bank of New Zealand Act 2021 elevates “the stability of New Zealand’s financial system” into an end in itself, divorced from any test of community well-being.

The predictable consequence is gold-plating: prudential settings calibrated to maximise stability without weighing the costs imposed on borrowers, depositors and the wider economy. The RBNZ’s 2019 decision to lift major-bank capital requirements to levels among the highest in the world, targeting a one-in-200-year crisis frequency against the international norm of one-in-100, illustrates the problem. The Initiative made these arguments to the Finance and Expenditure Committee in September 2024⁴⁷⁵ and again in its 2025 submission on the RBNZ’s review of capital settings.⁴⁷⁶

Those criticisms have broader support. In December 2024, the Minister of Finance issued a Financial Policy Remit directing the RBNZ to have regard to competition and efficiency in setting prudential standards.^{477, 478} In August 2025, the FEC recommended reinstating “market efficiency” as a key statutory objective of the Reserve Bank of New Zealand Act 2021.⁴⁷⁹ In its November 2025 response, the government partially agreed and asked Treasury to advise on legislative amendments.⁴⁸⁰

That advice should adopt the Initiative’s longstanding recommendation: amend section 9 of the 2021 Act to require the RBNZ to promote stability “to the degree that the expected benefits to the community exceed the costs.” The Financial Policy Remit is no substitute. It is a ministerial instrument the RBNZ need only “have regard to,” and a future Minister can withdraw or reweight it without reference to Parliament.

Capital requirements and regulatory efficiency

The RBNZ’s 2019 decision to increase capital requirements for banks generated sustained criticism from industry and independent

commentators. Major banks were required to hold capital equivalent to 18 percent of risk-weighted assets – or 25 percent on an internationally comparable basis once fully implemented in 2028. Analysis by the RBNZ’s own consultants, Oliver Wyman, placed New Zealand among the highest in the world: roughly 50 percent more capital than many international peers, and a material premium even over Australia’s 18.3 percent.⁴⁸¹

Higher capital requirements increase financial stability, other things being equal. But they are not free. Capital is the most expensive form of bank funding, and banks pass that cost through to customers as higher interest rates for borrowers and lower returns for depositors – and reduce the credit available to households and businesses. The RBNZ’s own 2019 cost-benefit analysis estimated that its capital decision would reduce New Zealand’s GDP by up to 0.32 percent annually; independent analysts put the impact closer to 1 percent.⁴⁸²

For a small economy with persistently low rates of business investment, higher interest rates and reduced credit availability hit the productive sectors with the fewest alternatives to bank credit hardest. It also harms smaller banks and non-bank deposit takers, whose relative regulatory burden the Commerce Commission’s 2024 market study found to be disproportionate.⁴⁸³ These costs mean that higher capital requirements need robust justification.

In August 2025, the RBNZ launched a comprehensive review of capital settings. The Initiative’s submission identified the structural features driving New Zealand’s outlier status and called for closer alignment with international norms.⁴⁸⁴ Oliver Wyman’s analysis showed that two technical settings together accounted for approximately 270 basis points of New Zealand’s 780-basis-point departure from international peers.⁴⁸⁵ The submission argued that without addressing these structural drivers, reform would leave New Zealand banks holding materially

more capital than international peers for comparable risk profiles.

The submission also identified a systematic bias against productive lending: the consultation paper's own analysis showed that proposed agricultural risk-weight reductions would lower lending rates by around 20 basis points, compared with only 5 basis points for residential mortgages – a four-fold differential that signals how heavily the existing framework weighed on business and rural lending. The submission warned that selective adjustments for agriculture, while leaving non-rural business lending unchanged, would entrench rather than address that bias.

In December 2025, the RBNZ announced its final decisions.⁴⁸⁶ Common equity requirements across the banking system will be reduced by approximately \$5 billion compared with current levels. For the four large Australian-owned banks, CET1 (common equity tier 1) capital will fall by around \$3.4 billion. Requirements for smaller banks and non-bank deposit takers will also be reduced.⁴⁸⁷

The RBNZ justified these changes by referring to developments since 2019. These included the introduction of the Depositor Compensation Scheme, more intensive supervision and enforcement, and the December 2024 Financial Policy Remit, which required attention to competition and efficiency. Board Chair Rodger Finlay claimed that the RBNZ had “recalibrated [its] risk appetite” while remaining confident in system resilience.⁴⁸⁸ The public policy relevance of the RBNZ's risk appetite is not clear.

The review also introduced Loss Absorbing Capacity (LAC) requirements for the major banks - instruments that can be written down or converted to equity in a crisis. This aligns New Zealand more closely with Australian settings and international practice. Risk weights for housing lending with loan-to-value ratios below 70 percent will match Australian standards.

Agricultural lending received substantial relief. But risk weights for general corporate and commercial property lending, infrastructure lending, and personal lending were either left at conservative levels or deferred. The total capital requirement for the major banks remains materially above the equivalent Australian levels.

The CET1 reductions and the removal of AT1 represent meaningful concessions and move in the right direction. The reduction in CET1 capital requirements should lower funding costs for banks, with the RBNZ expecting benefits to flow through to borrowers in the form of increased lending and reduced interest rates. Implementation will occur under the Deposit Takers Act, with full effect by 2028. The RBNZ will consult on an exposure draft of the Capital Standard in mid-2026.⁴⁸⁹

The 2025 review delivered meaningful progress on the quantum of capital. But the structural features that drive New Zealand's outlier status survive intact, and the asymmetric pattern of relief – housing and agriculture moving toward international norms while non-rural business and infrastructure lending wait – vindicates the Initiative's warning that selective adjustments would entrench rather than address the bias against productive lending. Submitters had asked for alignment with Australia's settings on the structural drivers. The RBNZ declined.

With the structural drivers retained in the December decisions, the Financial Policy Remit remains the most direct lever for completing the reform. A revised Remit can direct the RBNZ to align with international peers on the calculations that drive New Zealand's outlier position, and to address the residual bias against non-rural business lending.

Deposit insurance and market discipline

In July 2025, the government implemented a deposit insurance scheme covering deposits up to \$100,000 per person per institution.^{490,491}

This diverged from the Initiative's 2023 recommendation to halt the implementation of deposit insurance.

Deposit insurance schemes reduce the incentive for depositors to monitor bank behaviour. They can also create moral hazards by weakening market discipline. Banks operating under such schemes may face less competitive pressure to maintain conservative lending standards because depositors know their funds are protected.

The scheme's proponents argue that it prevents bank runs and protects small savers. Until July 2025, New Zealand operated without explicit deposit insurance apart from extensive government ownership and a temporary scheme in response to the global financial crisis 2008–2011. An Open Bank Resolution policy was subsequently developed to respond to such repeat situations. That policy required depositors to bear some risk, which created an incentive to consider bank safety when choosing where to deposit funds.

Treasury's Regulatory Impact Statement for the Deposit Takers Bill acknowledged concerns about moral hazard. It noted that the scheme would need to be carefully designed to minimise unintended consequences.⁴⁹² The scheme is now operational, funded by levies on deposit-taking institutions.

A future government should review the scheme's effects on market discipline and bank behaviour once sufficient evidence has accumulated.

Market studies powers and competition policy

The CCR Bill specifies qualifying criteria for commissioners, including knowledge of or experience in industry, commerce, economics, law, finance, infrastructure, public administration, or consumer affairs. But up to five of the seven board members need not meet equivalent criteria, being

appointed under the standard Crown Entities Act 2004 process. Moreover, the government retained the Commerce Commission's compulsory information-gathering powers for market studies, contrary to The Initiative's 2023 recommendation. Recent reforms have strengthened rather than refocused these powers.

The Commerce Act amendments of August 2025 expanded the Commission's investigative capabilities.⁴⁹³ The government continues to fund resource-intensive sector studies in groceries and banking.⁴⁹⁴ These studies perpetuate a view that market concentration reflects undesirable business behaviour rather than efficient competition given undue regulatory barriers to competitive entry. The CCR Bill itself moves in the same direction. Its new general functions provision directs the Commission toward recommending regulation, rather than focusing its market study work on regulatory barriers to entry.⁴⁹⁵

The Personal Banking Market Study (2023–2024) exemplified this bias. Asserting a “stable oligopoly,” the study recommended state-centric solutions such as capitalising Kiwibank. It failed to address the RBNZ's onerous prudential capital requirements as a regulatory barrier to competition.⁴⁹⁶

The government's adoption of a lighter-touch version of The Initiative's Fast-Track Supermarket Entry proposal in August 2025 demonstrated an alternative approach.⁴⁹⁷ The Initiative documented that obtaining permission to build a supermarket takes 18 months and costs \$1 million.⁴⁹⁸ Streamlining approval processes would achieve more for grocery competition than years of market studies. We support the government's initiative in this area, but encourage maintaining a watching brief. For defensible reasons, the government's proposal did not go as far as the Initiative had recommended. If the new fast-track does not result in entry, the Initiative's version remains available.

Potential competitors do not need compulsory powers to identify entry opportunity. They need regulatory barriers removed. The Commission's continued use of extensive information-gathering powers for economic research is a costly distraction from addressing actual barriers to competition.

External monitoring and accountability

Good governance requires effective external monitoring. In *Who Guards the Guards?*, we found that departmental oversight and select committee scrutiny are insufficient to evaluate the substantive performance of specialist regulatory agencies.⁴⁹⁹ The recommendation was repeated in its 2022 report, *Reassessing the Regulators*, and in its September 2024 submission to the Finance and Expenditure Committee.⁵⁰⁰ The Initiative recommended tasking an independent body with periodic reviews of the strategies and performance of the three major 'all of economy' regulators – the Commerce Commission, the FMA, and the RBNZ and reporting the findings to Parliament.

Australia has acted on this logic. The Financial Regulator Assessment Authority Act 2021 created the Financial Regulator Assessment Authority, tasked with periodic assessments of Australian Prudential Regulation Authority (APRA)'s and Australian Securities and Investments Commission (ASIC)'s effectiveness and capability. New Zealand has not yet followed suit.

The Initiative's original suggestion was to make the Productivity Commission responsible for this function. In the wake of its abolition, the Ministry of Regulation is a natural alternative. Its whole-of-government mandate and focus on regulatory quality position it well to conduct periodic independent reviews of the Commerce Commission, the Financial Markets Authority, and the RBNZ, reporting findings to Parliament.

The Government has not yet established this review function within the Ministry. The Regulatory Standards Board, established by the 2025 Act, reviews laws for compliance with regulatory principles, but does not assess regulatory implementation.⁵⁰¹ The Ministry for Regulation conducts sector reviews that examine regulatory burden, but not regulator capability.⁵⁰²

Auditing rules is materially different from auditing rule-makers. A review might identify problematic regulations without examining whether the regulator has appropriate systems, skills, and processes to implement even well-designed rules effectively.

Without periodic independent reviews of major independent regulatory agencies, Parliament lacks essential information about regulatory effectiveness and efficiency. The contrast with fiscal oversight is instructive. Budget appropriations are annual and all baseline spending is part of the scrutiny. The Auditor General reports on compliance. No equivalent system exists for regulatory oversight, despite its comparable economic impact.

The RBNZ's prudential functions illustrate an accountability problem. Its impact on competition and efficiency is largely exempt from independent scrutiny.⁵⁰³

The CCR Bill is an opportunity to legislate this function. The Initiative's submission proposes an amendment to the CCR Bill requiring the Ministry of Regulation to conduct three-yearly reviews of the Commerce Commission's regulatory strategies and performance, and corresponding amendments to extend this obligation to the FMA and RBNZ.⁵⁰⁴

Public appointments and governance

Governance arrangements count for little if those tasked with governing are not up

to the job. In *Who Guards the Guards?*,⁵⁰⁵ we found that appointment processes for regulatory agencies were highly variable and that ministerial certification of proper process was generally a mere formality. Both the Productivity Commission and The Initiative's 2017 survey found real shortcomings in the quality of appointment processes and expertise of regulatory leadership. The recommendation was repeated in *Reassessing the Regulator*.⁵⁰⁶

The UK addressed similar concerns by establishing an independent Commissioner for Public Appointments, tasked with ensuring the best people are appointed to public bodies free of personal and political patronage. Ministerial accountability is preserved – Ministers retain ultimate responsibility for appointments – but the Commissioner provides independent quality assurance of processes. Canada has adopted a comparable approach and the Initiative has recommended that New Zealand do the same.

Successive governments have made no progress on this recommendation. If anything, they have moved in the opposite direction. Cabinet Office Circular CO (24) 2 formalised coalition consultation requirements for appointments.⁵⁰⁷ This institutionalises a system under which appointments must satisfy political parties rather than meet objective capability criteria.

The Public Service Commission's Board Appointment and Induction Guidelines reference skills matrices.⁵⁰⁸ However, these are neither standardised nor publicly disclosed. Ministers retain discretion over both the criteria and the selection.

The CCR Bill provides the immediate opportunity to apply this discipline to the Commerce Commission. The Initiative's submission proposes amending the Bill to bring appointments to the Commission within the remit of an independent appointment agency, and to require the new governance board to

conduct recruitment and recommend candidates to the Minister, mirroring the two-stage process used for external Monetary Policy Committee members under the Reserve Bank of New Zealand Act 2021.⁵⁰⁹

The remaining gaps

Notwithstanding these developments, fundamental obstacles to reform remain in place.

First, regulatory disciplines are weak. The principles established by the Regulatory Standards Act are merely a transparency measure, and a change of government in 2026 would likely see them extinguished. Protection for property rights and clarity as to what people can do with their property are also weak.

Second, accountability mechanisms remain incomplete. There are no periodic, independent reviews to assess whether regulators are performing effectively. External monitoring focuses on compliance rather than performance.

Third, cultural change has not accompanied institutional reform. Risk aversion persists in part because the stock of existing legislation is unchanged. Process requirements raise costs and stifle innovation and initiative. Regulatory agencies, following their statutory obligations, continue to view their role as preventing harm rather than enabling lawful risk taking. The desirability of greater emphasis on *caveat emptor* and common law remedies for fraud and misrepresentation should be considered.

Fourth, human capital issues remain unaddressed. Appointment processes lack transparency and professional assessment. Board positions continue to be political appointments rather than meritocratic. Without an independent appointments agency evaluating candidates against published skills matrices, structural reforms such as the Commerce

Commission's new Governance Board risk being undermined by the same weaknesses they were designed to overcome.

These gaps interact to limit the effectiveness of reform. New institutions operating with old cultures and capabilities will not deliver improved outcomes. Comprehensive reform requires addressing incentives affecting structure, culture, and human capital simultaneously.

Recommendations

The incoming government should:

- I. Establish statutory capability reviews requiring the Ministry for Regulation to conduct independent, triennial assessments** of the Commerce Commission, FMA, and RBNZ's prudential arm, examining effectiveness, efficiency, and strategic direction.
- 2. Amend the Commerce (Commerce Commission Reform) Amendment Bill** to prohibit dual membership of the governance board and commissioner panel, require commissioner expertise in competition economics with a two-stage appointment process, and refocus the Commission's market studies function on regulatory barriers to entry.
- 3. Remove the Commerce Commission's compulsory information-gathering powers for market studies.** These studies should focus exclusively on identifying regulatory barriers to entry through desk-based analysis establishing whether policy, government procurement processes, or regulation together effect a substantial lessening of competition. The Ministry for Regulation could then assess whether improvements are possible.
- 4. Create an independent appointments commission responsible for all governance appointments to regulatory agencies,** with the CCR Bill amended to bring Commerce Commission appointments within its remit.
- 5. Require all economic regulators to establish regulatory sandboxes by December 2027,** following the FMA model to enable controlled experimentation and innovation.
- 6. Separate the RBNZ's prudential regulation function into an independent prudential authority on the Australian APRA model,** with an explicit mandate to consider competition and efficiency impacts of capital requirements.
- 7. Embed efficiency and proportionality as statutory prudential principles,** reinforcing the direction set in the 2024 remit.
- 8. Monitor the implementation of 2025 capital review decisions** with a focus on the efficiency principle as a core consideration in future prudential settings.
- 9. Review the deposit insurance scheme and the associated levies when sufficient evidence has accumulated.** Levies should cover the risk of that insurance to taxpayers.
- 10. Task the Ministry of Regulation with conducting periodic independent reviews of the RBNZ's prudential regulatory strategies and performance,** reporting findings to Parliament.
- 11. Task the Ministry for Regulation with scrutinising the statute book for laws that prioritise risk aversion over innovation,** reporting to Parliament on provisions that impose disproportionate compliance burdens without demonstrated net benefits.

CHAPTER 21

Overseas Investment

New Zealand’s foreign investment regime has undergone significant reform since the 2023 election. Processing times have halved, a new investment promotion agency has been established, and the regulatory framework for business assets has been streamlined. Yet an attitude that favours restriction remains intact, treating foreign capital as a privilege to be rationed rather than a resource to be welcomed.

In 1990, New Zealand and Ireland had similar GDP per capita. By 2023, Ireland’s GDP per capita had reached approximately US\$127,000, while New Zealand’s stood at US\$52,000.⁵¹⁰ Even accounting for the multinational profit-shifting that inflates Ireland’s GDP, adjusted measures like GNI per capita show Ireland substantially ahead. Irish workers are supported by twice the capital intensity of New Zealand workers – a direct result of accumulated foreign investment.⁵¹¹

Ireland’s greater ability to attract foreign direct investment reflects its position in the Euro zone as well as deliberate policy choices. Ireland’s Industrial Development Agency actively courts global capital with tailored support services. In contrast, New Zealand maintains a screening regime that the OECD consistently ranks among the most restrictive in the developed world. The reforms of 2024–2025 have improved operational efficiency without addressing this underlying restrictiveness.

The government rejected Treasury’s advice to screen foreign investment “solely on national security and public order grounds”.⁵¹² Instead, it retained a broader “National Interest” framework that preserves discretionary powers beyond genuine security concerns.

Repealing the Overseas Investment Act

The Luxon government’s operational reforms demonstrate meaningful progress within a flawed framework. A Ministerial Directive Letter in June 2024 shifted the Overseas Investment Office to a risk-based approach, achieving 87 percent of applications processed within half the statutory timeframe by late that year.⁵¹³

The Overseas Investment (National Interest Test and Other Matters) Amendment Act 2025 introduced important structural improvements. It removed the subjective “character and capability” test, created a “Repeat Investor” pathway for established partners, and eliminated consent requirements when investors increased shareholdings from 75 percent to 100 percent.⁵¹⁴

The removal of character tests eliminated a redundant assessment that duplicated immigration and criminal checks. The Repeat Investor pathway recognised that scrutinising the same entity multiple times wastes administrative resources. Faster processing reduces the time-cost imposed on foreign capital investors.

Yet foreign investors must still justify investing their own capital in legal activities in New Zealand. As the Initiative has argued, this resembles requiring a child to prove their lemonade stand will benefit the neighbourhood before opening.⁵¹⁵ The Overseas Investment Act 2005 continues to define foreign investment as a privilege rather than a right, imposing additional costs on New Zealand’s access to capital. Allowing greater access to foreign capital would free up a corresponding amount of New Zealanders’ capital.

The establishment of Invest New Zealand in 2025 highlights contradictory policy settings. This

agency, with an \$85 million budget to attract foreign investment. Meanwhile, legislation subject investments it attracts to potentially onerous screening.⁵¹⁶

International comparisons underscore the inadequacy of New Zealand’s current settings. The United Kingdom operates without an equivalent to New Zealand’s Overseas Investment Act. It permits foreign investment unless specific national security concerns arise. Singapore’s Economic Development Board actively recruits investors with tailored incentive packages. Australia, while maintaining investment screening, distinguishes more clearly between routine commercial transactions and genuine security concerns.⁵¹⁷

In March 2025, Treasury recommended screening focused “solely on national security and public order grounds” with other regulatory settings “generally assumed to be repealed”.⁵¹⁸ The government’s decision to retain the broader “National Interest Test” invites ongoing political manipulation and regulatory uncertainty.

The incoming government should complete this reform process by replacing the Overseas Investment Act with narrowly focused national security legislation. This would establish foreign investment as a right, subject only to specific, clearly defined security exceptions. All economic benefit tests and national interest considerations beyond security should be eliminated.

Creating universal investment rules

The current regime comprises a two-tier system. Investors in business assets and Build-to-Rent developments enjoy streamlined processes. Those wanting to invest in residential property, forestry, or farmland are subject to restrictive screening. This differentiation creates economic distortions that reduce competition and productivity.

The Overseas Investment (Build-to-rent and Similar Rental Developments) Amendment Act 2025 illustrates the costs of discrimination.⁵¹⁹ To unlock institutional investment in rental housing, the government created specific exemptions allowing “standing consents” – pre-approval to deploy capital without identifying every site in advance. The strong investor interest following these reforms validated the Initiative’s position that discriminatory rules restrict beneficial investment.

Restrictions directly affect New Zealanders’ living costs. The 2025 Initiative report *Fast-Track Supermarket Entry and Expansion Omnibus Bill* showed how the Overseas Investment Act protects the supermarket duopoly from international competition.⁵²⁰ Potential entrants require portfolios of sites to establish viable operations. The Act’s broad “sensitive land” definition – triggered by proximity to parks or reserves – creates regulatory uncertainty that deters new competitors. The Initiative characterises this as a hidden tax on competition that maintains artificially high grocery prices.

The forestry sector illustrates regulatory instability. Having established a “special forestry test” to encourage investment aligned with climate goals, the government repealed it in 2025 following rural concerns about farmland conversion.⁵²¹ Such reversals in response to political pressure undermine investor confidence across all sectors.

The residential property ban remains absolute except for Active Investor Plus visa holders purchasing homes for more than \$5 million.⁵²² This creates differential treatment whereby the right to purchase property depends on wealth and immigration status rather than universal principles.

The incoming government should eliminate provisions that differentiate based on investor nationality. This would require removing the

foreign buyer ban, abolishing the expansive ‘sensitive land’ category, and ensuring any screening applies equally to all investors. Environmental protection, competition policy, and labour standards should be addressed through universal regulations applicable to all market participants.

Protecting property rights through compensation

The freedom to sell property to willing buyers at market prices is fundamental to ownership. The Overseas Investment Act systematically constrains the freedom of New Zealanders to sell to foreigners, without compensating them for the lost value.

Consider a hypothetical but realistic scenario. A New Zealand farmer receives a \$10 million offer from an international buyer. The Overseas Investment Act blocks the sale on “national interest” grounds despite there being no security threat. The farmer accepts \$8 million from a domestic buyer - the next best offer in New Zealand’s thin rural land market. The \$2 million difference represents an uncompensated loss for the farmer, and thereby for New Zealanders, imposed by state action.⁵²³ What is the offsetting benefit for New Zealanders that might justify this loss and why should the farmer pay that price?

The statutory language declaring investment a ‘privilege’ should not insulate the government from compensation claims.⁵²⁴ In defining the ability to sell to foreigners as a state-granted privilege rather than the right of any New Zealander, the government imposes losses on would-be sellers without proper national interest justification or transparency.

Under the ‘Benefit to New Zealand’ test retained for farmland and fishing quota, foreign buyers must demonstrate benefits “over and above” those

that a hypothetical domestic purchaser might provide. That standard explicitly excludes the (potentially more attractive) purchase price from consideration.⁵²⁵ The test treats the element most valuable to vendors as economically irrelevant.

Current arrangements impose the costs of economic nationalism on individual property owners without those costs even having to be acknowledged, let alone put into the balance. As The Initiative argued in 2014, if the ‘public’ wishes to prevent foreign ownership for benefits that impose a cost on land-owners, the public purse should bear that cost, unless there is a compelling reason otherwise.⁵²⁶

When security concerns justify blocking a sale, compensation should be considered but not necessarily paid. (Suppose a foreign terrorist organisation was a potential buyer, or someone plausibly acting on its behalf). Opportunistic local landowners should not receive compensation every time they pay the organisation under the table to make an elevated bid for their land that everyone knows is going to be blocked. To prevent fraud, blocked offers should have to be genuine before compensation is considered.

The path forward

The Luxon government’s reforms have demonstrated that operational improvements are achievable within the current framework. But faster bad decisions should not be the aim. Making a regulatory process faster does not address whether that process should exist at all, or whether the decision criteria have a public interest justification. The UK’s openness and Ireland’s success show that political constraints based on anti-foreigner fears or sentiment are not immutable. Done well, foreign direct investment can lift productivity and incomes. Reasons for restricting it should be anchored in public interest considerations.

Competition for capital, technology, and expertise is global. New Zealand needs to be competitive if it is to attract and retain productive and mobile talent and capital. The partial reforms of 2024–2025 are a useful start, but they fall well short of what is required to be truly competitive. The task for 2027 and beyond is to make further progress towards replacing ‘privilege’ with liberty and protection with competition.

Recommendations

The incoming government should:

1. **Enact a National Security and Investment Freedom Act** to replace the Overseas Investment Act 2005, putting foreign investors on the same footing as domestic investors, subject only to clearly defined national security exceptions.
2. **Implement universal investment rules** by removing the foreign buyer ban. It should, at least, be radically narrowed to cover ‘sensitive land.’
3. **Protect property rights** by guaranteeing freedom to sell absent security concerns. When security requires blocking sales, the issue of compensation should be addressed.
4. **Reform Invest New Zealand** to operate as an investment promotion agency providing end-to-end investor support without regulatory gatekeeping.
5. **Embrace unilateral openness** by implementing reforms immediately without waiting for reciprocal arrangements.
6. **Conduct rigorous review** of any remaining restrictions to ensure benefits demonstrably exceed costs.
7. **Publish quarterly reports** on investment flows, processing times, and New Zealand’s comparative attractiveness, to maintain transparency and accountability.

CHAPTER 22

Workplace Relations and Safety

New Zealand's labour markets have delivered remarkable results since 1991. High participation rates, strong job creation, and rising real wages across all income levels demonstrate what flexible labour markets can achieve.⁵²⁷ As the Initiative has documented,⁵²⁸ the OECD has singled out New Zealand, alongside Denmark, as a country in which workers have shared in the benefits of economic growth.⁵²⁹

This success is vulnerable. The Luxon Government moved decisively to reverse the dangerous experiment with centralised wage bargaining imposed by the Ardern government's 2022 Fair Pay Agreements Act and restored proven flexibility mechanisms. But opposition parties have signalled their intent to resurrect intrusive Fair Pay Agreements (FPAs) and reverse other reforms if returned to office. Meanwhile, youth unemployment reached 22 percent in September 2025, the most glaring failure of current labour market settings.⁵³⁰ At the same time, businesses face mounting compliance burdens from health and safety regulations that largely comprise paperwork rather than risk management. ACC levies are continuing to rise without corresponding improvements in workplace safety outcomes.

Defending against centralised bargaining

The Fair Pay Agreements Act 2022 sought to impose sector-wide wage bargaining across diverse industries and regions. The Luxon government repealed it through the Fair Pay Agreements Act Repeal Act 2023.⁵³¹ This prevented any agreements from taking effect and removed all associated regulations from the statute books.⁵³²

The Initiative's research had already debunked the central empirical case for FPAs.⁵³³ Treasury data showed that the share of national income paid to workers had not fallen since the 1991 reforms, contradicting the central claim used to justify FPAs.⁵³⁴ Even government officials harboured doubts. MBIE's Regulatory Impact Statement said that FPAs were "not its preferred approach." Treasury advised Cabinet there was no "strong case" for the system.⁵³⁵

Workplace Relations and Safety Minister Brooke van Velden explained the core issue clearly, "Fair pay agreements were never about fairness, they forced a minority of union workers' views on all affected workers and businesses."⁵³⁶

Opposition parties voted against the repeal and have indicated they intend to restore some form of mandatory sectoral bargaining if elected. Under forced bargaining, the labour of the least productive and most vulnerable workers is artificially priced above its value to employers. These workers are therefore more likely to be unemployed than they would under a more flexible bargaining regime. As the Initiative argued in *Work in Progress*, then, FPAs would harm precisely those workers they purported to protect - those at the margins of the labour market, including the unemployed seeking entry.⁵³⁷

Modernising dismissal protections

The Employment Relations Amendment Act 2025 broadens the scope and application of 90-day trials, limits unjustified dismissal recourse for high income employees, weakens some personal grievance protections, introduces

a safe-harbour ‘specified contractor’ test, and removes the 30-day rule for new employees covered by a collective.⁵³⁸

High-income threshold

The Act established a threshold of \$200,000 per annum above which employees lose automatic rights to bring personal grievance claims for unjustified dismissal.⁵³⁹ The threshold applies to base salary only and will be indexed annually to average weekly earnings.⁵⁴⁰

The threshold applies immediately to new employment agreements once the Act took effect in February 2026. There is a 12-month transition period for those on existing contracts, during which high-income employees retain their right to raise personal grievances for unjustified dismissal, even if dismissed near the end of the 12 months (within the standard 90-day claim window). Employers and employees can renegotiate agreements early to opt into or out of the threshold protections ahead of time.

This reform is consistent with the Initiative’s longstanding recommendation that high-income earners be excluded from unjustified dismissal protections.⁵⁴¹ As the Initiative argued, executives possess fundamentally different bargaining power than ordinary workers. If boards cannot remove underperforming leaders without expensive legal proceedings, mediocrity becomes entrenched, with adverse consequences, both for firms and for ordinary workers who depend on effective management. The reform preserves all protections against discrimination and harassment while allowing high earners to negotiate bespoke termination arrangements. The enacted threshold of \$200,000 sits between the Initiative’s recommended threshold of \$250,000 and the \$180,000 figure originally proposed in the Bill.⁵⁴²

Contractor clarification

The Supreme Court’s November 2025 decision in a case brought by a handful of Uber drivers’

case to be treated as employees rather than contractors. It threatened to extend employment law into genuine commercial relationships.⁵⁴³ The Act’s Gateway Test makes it clear that workers who meet specific criteria are contractors, not employees.⁵⁴⁴ The Initiative’s submission on the Employment Relations Amendment Bill supported the Gateway Test in principle but recommended that the definition of “specified contractor” be broadened to capture platform-based facilitation models, such as those used by Uber and other rideshare services. The original drafting risked excluding these models.⁵⁴⁵

The high-income threshold for unjustified dismissal and clarification of the definition of contractors modernise the Employment Relations Act for contemporary work patterns. They reduce compliance costs and support productivity growth.⁵⁴⁶ The 12-month transition period for existing contracts provides certainty while ensuring full implementation.⁵⁴⁷

Restoring hiring confidence

The Employment Relations (Trial Periods) Amendment Act 2023 removed the arbitrary 20-employee threshold that had restricted trial periods to small businesses since 2018.⁵⁴⁸ All employers can now include 90-day trial period provisions in employment agreements with new workers. A mandatory 30-day rule for requiring new employees to be employed under the terms of a collective agreement has also been repealed.

Trial periods acknowledge that employment is a matching process with imperfect information on both sides. When employers face expensive dismissal proceedings for unsuccessful hires, they naturally favour safe choices – experienced workers with proven records. The restoration of trial periods therefore particularly benefits those without extensive work histories, including school leavers and the long-term unemployed.

Critics claimed the extension would lead to arbitrary dismissals. Evidence suggests otherwise. Trial periods do not remove good faith obligations or other worker protections.⁵⁴⁹ They simply recognise that discovering incompatibility quickly benefits both parties more than regulatory compulsion to maintain poor matches.

Minimum wages

Youth unemployment for 15–19 year olds stands at 22 percent according to Statistics New Zealand's September 2025 quarter data.⁵⁵⁰ This accounts for 36,000 young New Zealanders denied their first step on the employment ladder by a minimum wage that prices them out of opportunity.

The current minimum wage of \$23.50 per hour functions as an insurmountable barrier for those without skills or experience. The existing Starting-Out wage, theoretically set at 80 percent of the adult minimum, has negligible impact due to restrictive eligibility criteria – barely two percent of employers meet its bureaucratic requirements.⁵⁵¹

International evidence provides informative contrast. Germany allows training wages as low as €4.10 per hour – approximately one-third of the adult minimum.⁵⁵² This reflects the genuine costs employers bear in training novices and their lower initial productivity. Treasury-funded research estimated that raising youth minimum wages toward the adult rate in 2001 eliminated between 4,500 and 9,000 jobs for 16–17 year olds.⁵⁵³

A palliative remedy would be to set a Training Wage at 60 percent of the adult minimum for workers under 20. It would apply to the first 12 months with any employer. This would make youth employment more viable. Youths may be sharing in household expenses with other earners, either family or flatmates.

Opponents may fear that older workers will lose their jobs to 15–19-year-olds. But demand for workers is not fixed, and successful transition from school to work and service is very important for young people.

Setting aside the harm it causes to young and inexperienced workers, the minimum wage framework does not well account for work not paid by the hour. Employers whose piece-rate or output-based workers generally earn above the minimum wage in practice should be deemed compliant, even if a small proportion earn less than the minimum wage. If a large proportion of workers are earning a reasonable margin above the minimum wage, the piece-rate scheme is obviously not designed with the intention of thwarting the minimum wage. The current system imposes compliance costs on employers who are already paying above the floor, discouraging the use of output-based pay arrangements that align worker incentives with productivity. A simple safe harbour when average earnings over a pay period for most workers exceed the minimum wage would remove this burden.

Reforming workplace safety and accident compensation

New Zealand's workplace health and safety regime and accident compensation system have evolved into complex, costly structures. Monopoly insurance like ACC is an unnecessary burden that prevents competition, innovation and choice. It also impairs delivery incentives. The abolition of the right to sue for injury from accident has been replaced with an intrusive and costly work safety regulation that fails to balance benefits with costs. The proliferation of red safety cones on the roads makes this visible daily. With workplace injury costs reaching \$4.9 billion annually and ACC proposing cumulative levy increases of up to 24 percent by 2028, reform is urgently needed.^{554, 555}

Health and safety overreach

The Health and Safety at Work Act 2015, now a decade old, has, through impaired incentives, fostered a culture of risk aversion. It stifles productivity without demonstrably providing net benefits. There is little or no concept of optimal risk-taking or of accepting accidents that are not worth the cost of avoiding, yet people are allowed to play risky sports and go mountaineering. A comprehensive review launched by Workplace Relations and Safety Minister Brooke van Velden in June 2024, found that businesses struggle to understand compliance requirements while facing disproportionate penalties for minor infractions.⁵⁵⁶

The Initiative has long documented the absurdity of current requirements. Scaffolding regulations add between \$2,000 and \$7,000 to simple roofing jobs with no compelling cost-benefit assessment to justify them.⁵⁵⁷

The government's reform agenda, announced in late 2024, promises to focus the system on critical risks while reducing unnecessary compliance costs for small businesses. This includes developing Approved Codes of Practice that allow industries to create flexible, context-appropriate safety guidelines rather than rigid one-size-fits-all rules.⁵⁵⁸

ACC inefficiencies and incentive problems

ACC is a monopoly provider with limited accountability for efficiency or outcomes. Despite stricter health and safety regulations, injury rates remain high, suggesting fundamental misalignment between the regulatory regime and the compensation system.⁵⁵⁹

The Initiative's 2024 submission on ACC levy consultation highlighted critical problems. Levies do not send sharp pricing signals about risk, experience rating is inadequate, the definition of an injury is too broad, and the system lacks competitive pressure to drive innovation or efficiency.⁵⁶⁰ While the government has made

minor adjustments to regulatory settings in 2025, these tinker at the margins rather than addressing structural issues.⁵⁶¹

Reform should focus on introducing competition to the ACC Work Account, strengthening experience ratings to reward safe workplaces with lower levies, narrowing the definition of an injury, and aligning ACC incentives with genuine injury prevention rather than claims management. As the Initiative has argued, after 50 years of operation, ACC requires comprehensive review to create a system that is both fiscally responsible and effective at reducing workplace harm.⁵⁶²

Entrenching flexibility

The Luxon government's reforms since 2023 have arrested the slide towards European-style rigidity. Yet without addressing youth wages, reforming workplace safety and ACC, and protecting against future reversal to a more rigid and higher cost labour market, these gains remain incomplete and vulnerable.

With productivity growth remaining stubbornly low, AI rapidly changing the demand for labour, and youth unemployment a real concern, greater labour market flexibility is essential.⁵⁶³ Countries maintaining flexible labour markets consistently outperform those with rigid regulations in job creation and living standards.

The moral imperative is equally clear. The 22 percent youth unemployment rate represents thousands of young lives experiencing despair, helplessness, alienation and anger. They should be learning on-the-job habits and skills rather than being locked out of employment. Their futures are being foreclosed by misguided protection they never sought. Meanwhile, businesses struggle under compliance burdens that protect no one and stifle innovation and growth.

Recommendations

The incoming government should:

1. **Establish a Training Wage** at 60 percent of adult minimum wage for workers under 20, available for their first 12 months with any employer.
2. **Reform health and safety regulations** based on a rigorous cost-benefit assessment of the case for continuing with each element.
3. **Introduce competition to ACC's work account**, allowing businesses to choose between ACC and approved private insurers for workplace injury cover.
4. **Strengthen ACC experience ratings** to provide sharp pricing signals that reward safe workplaces and penalise poor safety performance.
5. **Narrow the base for claims on ACC to those that are due to injury by accident** as originally intended, when verifiable proof of an injury and its source is provided.
6. **Amend the definition of "specified contractor" in the Employment Relations Amendment Act 2025** to cover platform-based facilitation models.
7. **Publish quarterly data** on the employment effects of restored trial periods, demonstrating their impact on marginal workers.
8. **Commission independent research** investigating the effects of current Starting-Out wage settings with their two percent uptake rate.
9. **Establish permanent monitoring** of youth employment impacts from minimum wage changes, ensuring policy is based on evidence rather than ideology.
10. **Create a regulatory sunset requirement** for labour market and safety regulations, requiring evidence of effectiveness for renewal every five years.
11. **Allow individuals to opt out of minimum wage restrictions without having to become self-employed to do so.** A safe harbour for piece-rate and output-based pay arrangements should be provided for average earnings exceeding the minimum wage.
12. **Implement differential minimum wages by region**, recognising that appropriate wage floors vary between Auckland and rural areas.

CHAPTER 23

Digital Regulations

Digital technologies transform economic activity faster than regulatory frameworks can adapt. The Initiative's 2017 report *Analogue Regulations, Digital World* identified four areas requiring modernisation: copyright laws, open data access, anti-money laundering legislation, and mutual recognition of comparable jurisdictions.⁵⁶⁴ Almost a decade later, progress is uneven.

Since 2023, New Zealand has enacted substantial digital regulation, including the Customer and Product Data Act 2025, and has implemented anti-money laundering reforms. The European Union Free Trade Agreement mandates copyright term extensions. Members' bills propose restrictions on social media access for minors and criminalisation of 'deepfake' synthetic media. They also, more laudably, propose protections for parody under copyright law.

The digital regulatory environment often imposes compliance costs without enabling innovation. New Zealand lacks a framework for enabling artificial intelligence development, platform regulation proceeds without clear principles, and digital services taxation looms without adequate economic assessment.

Anti-money laundering reforms

The anti-money laundering regime underwent significant reform following a statutory review that found obligations were set "higher than actual risk".⁵⁶⁵ The government implemented changes in three phases, concluding on 1 June 2025.

Phase One provided immediate regulatory relief through amended regulations.⁵⁶⁶ Enhanced

customer due diligence requirements for low-risk trusts were removed, reducing compliance time for legal and accounting professionals. Phase Two aligned New Zealand's regime with international standards while reducing domestic friction. Phase Three extended coverage to new sectors while consolidating the regulatory framework.

Professional services firms report reduced compliance costs. Banks avoided being "de-risked" by international correspondents due to adjusted requirements that better align with global standards.⁵⁶⁷

An earlier Initiative recommendation would prove a useful complement to reforms already undertaken. The Initiative suggested exempting businesses from verifying funds already cleared by New Zealand banks.⁵⁶⁸

This 'double verification' requires small businesses to repeat due diligence already performed by banks. The redundancy imposes costs without clear benefits.

Copyright extension and the artificial intelligence gap

The European Union Free Trade Agreement requires New Zealand to extend copyright terms from life plus 50 years to life plus 70 years by May 2028.⁵⁶⁹ This imposes economic costs without corresponding benefits other than the benefit of access to the European market.

As a net importer of intellectual property, New Zealand will increase royalty payments to overseas rights holders without gaining additional creative incentive from protecting works whose

creators died decades ago. Cultural institutions face a twenty-year extension before works enter the public domain, limiting digitisation projects.

Stranded works become a more important problem when copyright periods are longer. If the person holding copyright over a work cannot be located, no one can gain the rightsholder's permission to republish or otherwise use that work.

If possible, within the confines of trade agreements, the government should consider making the agreement-required copyright extension available by application of the rightsholder. The shorter duration would otherwise apply. Works with no identifiable rights-holder would then spend less time stranded.

The Resale Right for Visual Artists Act 2023 adds complexity.⁵⁷⁰ The five percent royalty on secondary art sales, operational from December 2024, may reduce initial sale prices as buyers factor in future costs. International evidence suggests such schemes can shift sales to private markets, reducing transparency.

Most critically, New Zealand's Copyright Act 1994 provides no exception for artificial intelligence training. Unlike the United States' "fair use" doctrine or specific Text and Data Mining exceptions in the European Union and Japan, New Zealand offers no clear legal pathway for AI development. Local developers must choose between legal risk and offshore development. And the corpus of AI-knowledge risks having blind-spots about New Zealand. If it is legal for a person to read and learn from a legally acquired text, it should be legal for an artificial intelligence to do the same.

The Initiative has consistently argued for copyright modernisation to enable innovation. The absence of AI provisions represents a fundamental failure to engage with transformative technology. Without legislative

change, New Zealand cannot participate meaningfully in AI development.

Social media regulation and age verification

Members' bills before Parliament propose restricting social media access for those under 16 and criminalising 'deepfake' content.⁵⁷¹ These proposals reflect international trends, particularly Australia's proposed age verification requirements.⁵⁷²

The challenges for implementing any such regime are substantial. Feasible systems come with substantial privacy risk, including for adults required to prove that they meet age criteria. Alternatively, they risk imposing substantial and ongoing burdens on adults required to frequently re-verify that they are not underaged. Determined minors may shift to platforms like US-based 4chan that refuse to comply with mandates from overseas governments or use Virtual Private Networks to feign being in another country.

Virtual Private Networks are critical for security for businesses and provide important protection for those needing privacy. When online age-gating requirements in the UK led to a surge in VPN subscriptions, Parliament there began contemplating restrictions on VPN access. Such restrictions pose substantial threats to privacy and to normal business activity.

The Initiative's research on prohibition in other policy areas warns that bans can drive behaviour underground rather than eliminating it.⁵⁷³ Digital literacy education and parental tools are a more promising approach than legislative prohibition. For example, Google's Family Link allows parents to set time limits and app-specific restrictions. But if schools provide separate accounts that families do not control, children can use them to evade limitations.

Parliament should consider whether government is inadvertently undermining families' ability to manage access before considering social media age limits.

Deep fake legislation addresses legitimate concerns about non-consensual intimate images and electoral manipulation.⁵⁷⁴ However, definitions remain problematic. Without clear boundaries, legislation risks criminalising legitimate artistic and political expression. Would the legislation criminalise content generated using Photoshop in the 1990s?

Government should be reluctant to legislate in these areas in the absence of demonstrated viable models in place abroad. Recent work demonstrates that Australia's social media ban has not only failed, but has also led Australian youths to view those complying with the ban as less popular than other youths.⁵⁷⁵

Digital taxation frameworks

The OECD's Pillar One and Pillar Two frameworks have prompted debate about digital services taxation.⁵⁷⁶ While New Zealand has not implemented unilateral measures, pressure to do so is growing as other jurisdictions proceed.⁵⁷⁷

Digital services taxes typically pass through to consumers via higher prices for advertising, cloud services, and software.⁵⁷⁸ They create double taxation risks and may trigger retaliatory measures. For example, France's digital services tax prompted the United States to threaten trade sanctions.

Multilateral solutions through OECD frameworks offer better outcomes than unilateral taxes. Any digital taxation should be predictable, internationally coordinated, and consider effects on innovation. The Initiative maintains that premature unilateral action would reduce New Zealand's attractiveness for digital investment.

At the same time, payments platforms like Stripe have radically simplified tax compliance burdens for smaller online retailers. It is now far more feasible to assess GST on goods and services purchased online. So levying GST on smaller-value online purchases from abroad brings reduced risk that vendors will simply eschew the New Zealand market.

Platform regulation and content moderation

The Fair Digital News Bargaining Bill proposes requiring platforms to pay publishers for content in search results and social feeds.⁵⁷⁹ In opposition, the National Party opposed the Bill. In government, it shifted to endorsing it but has since put the initiative on hold.

The Bill is based on a misunderstanding of the economic relationship between platforms and publishers, of the cause of the financial sustainability problems facing newspapers, and of New Zealand's 'Broad Base, Low Rate' approach to taxation.

For decades, journalism at newspapers was cross subsidised by classified advertisements. These shifted to dedicated online platforms leaving print journalism funded through paid print advertising, paid subscriptions, and online advertising.

Tied charges can make sense as fee-for-service in areas in which those levied benefit from a service for which the levy is collected. Those conditions do not apply here.

Platforms like Google, Meta, and X provide referral traffic that publishers monetise through advertising and subscriptions.⁵⁸⁰ When platforms view hosting news as more trouble than it is worth, mandatory payment requirements can lead them to disconnect news services, as occurred when Meta blocked news in Canada.

Smaller publishers who depend on social distribution would suffer most.⁸¹

Requiring one industry to subsidise another industry amounts to an end-run around two important processes. The Generic Tax Policy Process assesses whether proposed taxes are desirable. The Budget process weighs competing proposals against each other for scarce public funding.

Similar schemes abroad have similar problems. Canada has sought to levy online streaming services to fund Canadian content generation. But if there are public benefits to the creation of local cultural content, and those benefits are substantial enough to warrant government intervention, funding support drawn from general government revenue is more appropriate.

Content moderation presents separate challenges. Historically, automated systems have not been able to reliably distinguish satire from extremism or legitimate debate from misinformation. AI systems have improved considerably, but that improvement brings new risks. The US Department of Justice in March 2026 settled lawsuits stemming from the prior Biden administration's pressure on social media platforms to censor online speech.

For better or worse, and probably for better, New Zealand lacks market power to impose unique requirements on global platforms.

Predictions past and future

Analogue Regulation, Digital Worlds described the collapse of iPredict, New Zealand's innovative prediction market that was run via Victoria University of Wellington. Prediction markets are places where people trade contracts to pay one another based on whether a particular event happens or not.

iPredict operated under an exemption from the Financial Markets Authority, subject to a few restrictions. For example, they could not offer prediction contracts on sporting events, and traders were not allowed to deposit substantial amounts of money into their iPredict accounts.

When 'Know Your Customer' regulations for financial institutions tightened, iPredict saw no way of complying while remaining financially viable. While customer onboarding processes for financial institutions are now standardised, with services providing authentication, that authentication was more expensive in 2014. iPredict had many customers whose account balances were less than the per-user cost of complying with the new rules. So iPredict, which posed no appreciable money laundering risk, closed. A US-facing version, called PredictIt, continued to operate.

Over the past three years, prediction markets have taken off internationally. Monthly trading volumes on platforms like Kalshi and Polymarket now surpass US\$20 billion. Researchers at the US Federal Reserve found that Kalshi's markets 'provide a high-frequency, continuously updated, distributionally rich benchmark that is valuable to both researchers and policymakers.'

Kalshi is authorised and regulated by America's Commodity Futures Trading Commission, the CFTC. In addition to normal prediction market contracts, it offers contracts on sporting events.

In February, New Zealand's Department of Internal Affairs (DIA) informed Kalshi and Polymarket that both platforms are considered gambling in New Zealand, and that they should not allow Kiwis to trade on their platforms. Kalshi added New Zealand to its list of blocked countries. Polymarket has thus far ignored New Zealand.

Many futures contracts are considered gambling by DIA unless they are specifically authorised

by the FMA. Had Kalshi or Polymarket sought permission to offer non-sporting contracts to New Zealand-based traders, the FMA may well have authorised the offering. But large overseas platforms are unlikely to prioritise regulatory compliance for small countries. Without authorisation, the Department of Internal Affairs considers Kalshi's futures contracts to be gambling.

Meanwhile, Kalshi is integrating with wholesale financial trading desks. American traders will be able to construct financial portfolio products that carve out specific political or event risks by offsetting those risks on prediction markets. New Zealanders will miss those opportunities. This illustrates a need to recognise overseas regulatory authorisations, rather than requiring overseas platforms to seek specific New Zealand authorisation.

The path forward

Three years after the 2023 election, New Zealand's digital regulatory framework remains fragmented. Reactive proposals for platform taxes threaten innovation without addressing underlying concerns.

The Initiative's research points toward principled reform. Education is more effective than prohibition. Transparency delivers better outcomes than censorship. International coordination prevents regulatory arbitrage. Most importantly, New Zealand must engage with artificial intelligence as the defining technology of the decade.

Recommendations

The incoming government should:

- 1. Legislate a comprehensive Text and Data Mining exception** to the Copyright Act, enabling artificial intelligence training on New Zealand data while respecting intellectual property rights.
- 2. Introduce the double verification exemption** for anti-money laundering, removing redundant compliance where funds originate from New Zealand banks.
- 3. Reject members' bills restricting social media access** for minors and instead develop comprehensive digital literacy programmes for schools and parents.
- 4. Abandon the Fair Digital News Bargaining Bill** and support sustainable journalism through direct funding rather than platform mandates.
- 5. Resist unilateral digital services taxation** and work through OECD multilateral frameworks to ensure predictable, coordinated approaches.
- 6. Expand mutual recognition for digital services**, automatically approving services certified in comparable jurisdictions to reduce compliance duplication.

CHAPTER 24

Primary Sector

New Zealand's primary industries remain the country's export backbone, generating over half of merchandise export revenue. Yet productivity growth in the sector has stalled. Between 2000 and 2019, agricultural productivity grew at just 0.8 percent annually – well below the OECD average and a fraction of what New Zealand achieved in the 1980s and 1990s following deregulation.⁵⁸²

Many of the policy settings that most affect primary sector performance are addressed elsewhere in this briefing. Resource management reform (Chapter 17) will determine whether farmers can adapt land use without prohibitive consenting costs. Climate change policy (Chapter 18) shapes the emissions pricing regime under which pastoral agriculture operates. Freshwater management (Chapter 19) governs irrigation allocation and nutrient limits. Trade policy (Chapter 3) determines market access for exports. Rather than restate those arguments here, this chapter focuses on sector-specific issues that require attention.

Three additional policy issues are discussed in this chapter: outdated gene technology regulation that locks farmers out of tools their international competitors use more freely; biosecurity systems that remain reactive rather than preventive despite repeated costly incursions; and incomplete property rights frameworks in fisheries that fail to optimise value. Each represents a reform opportunity for New Zealand to boost productivity without subsidy, trade-off or fiscal cost.

Gene technology: stranded by the precautionary principle

New Zealand's regulation of gene technology is amongst the most restrictive in the developed

world. The Hazardous Substances and New Organisms Act 1996 (HSNO) treats all genetic modification as inherently hazardous, requiring case-by-case approval even for techniques that introduce no foreign genetic material.

This might have made sense in 1996. It does not make sense in 2026. Gene editing tools like CRISPR allow precise modifications indistinguishable from natural mutation or conventional breeding. Over sixty countries, including Australia, Japan, the United Kingdom and the United States, have updated their regulations to reflect this reality. New Zealand has not.

The cost compounds annually. Ryegrass varieties with improved drought tolerance grow in Australian paddocks while New Zealand farmers are prohibited from using them. Disease-resistant kiwifruit cultivars developed with New Zealand science are commercialised offshore. Methane-reducing traits that could help meet climate commitments cannot be deployed.

The case for reform had been building for years. As competitor countries have updated their frameworks, New Zealand's refusal to distinguish between gene editing and transgenic modification has become increasingly difficult to justify on scientific grounds. New Zealand should adopt a science-based framework that distinguishes gene editing from transgenic modification, with lighter-touch regulation for techniques leading to modifications that could occur naturally.

The Gene Technology Bill, introduced in December 2024 adopts a risk-based approach modelled on Australian legislation.⁵⁸³

It establishes a new regulator and differentiates between technologies based on their risk profiles. Gene-edited organisms that could have arisen through conventional breeding will face lighter oversight than transgenic modifications introducing novel genetic material.

This reform is a chance to break free from regulatory inertia.⁵⁸⁴ Pest and disease-resistant fruit and vegetable varieties can reduce reliance on chemical inputs. Sterile pine varieties can address concerns about wilding spread while maintaining forestry productivity. Climate-resilient pasture species can help agriculture adapt to changing conditions.

Concerns from organic producers about cross-pollination are legitimate but manageable. Coexistence strategies have proven effective in Australia and elsewhere - buffer zones, planting date adjustments, crop rotation, machinery management, and labelling protocols can all reduce risks to acceptable levels.⁵⁸⁵

New Zealand cannot afford to remain frozen while competitor countries embrace agricultural biotechnology. The longer reform is delayed, the longer the benefits of innovation will be denied to New Zealand producers, while they flow to their Australian, American, and European competitors. Unfortunately, at the time of writing the Gene Technology Bill is stalled, with New Zealand First considering it too enabling.

Biosecurity: the invisible infrastructure

Biosecurity is insurance New Zealand cannot afford to let lapse. The Ministry for Primary Industries estimates that a foot-and-mouth disease outbreak would cost \$16 billion in the first year alone, with cumulative losses potentially exceeding \$50 billion over a decade.⁵⁸⁶ New Zealand's biosecurity investment is not commensurate with these substantial risks.

The *Mycoplasma bovis* response, while highly successful, exposed weaknesses in New Zealand's biosecurity regime. Eradication required the culling of over 170,000 cattle and cost more than \$880 million, split between government and industry.⁵⁸⁷ New Zealand is one of only a few countries to have eliminated an established *M. bovis* population. The eradication programme also exposed three structural biosecurity weaknesses that must be addressed to mitigate future threats.

First, border capability has not kept pace with passenger and cargo volumes. Auckland Airport processes over 10 million international passenger arrivals annually. Numbers through Wellington and Christchurch have also grown. Biosecurity staffing has not scaled proportionately, and detector dog coverage is concentrated at major ports.

Second, the National Animal Identification and Tracing (NAIT) system underperforms. Poor compliance, particularly for cattle movements, limits the rapid response capability. The 2023 NAIT review found that only 78 percent of cattle movements were recorded within the required timeframe.⁵⁸⁸ Enforcement requires an overhaul.

Third, compensation frameworks remain ad hoc. The *M. bovis* response required negotiated cost-sharing because no standing arrangements existed. Farmers facing compulsory culling orders need certainty about compensation before outbreaks occur.

Government has increased biosecurity funding incrementally but has not addressed these structural weaknesses. Stronger border security, NAIT enforcement with meaningful penalties, standing compensation arrangements, and a sustainable funding model would all reduce New Zealand's vulnerability to the next incursion.

The Initiative has consistently argued for treating biosecurity as critical infrastructure deserving

sustained investment. The 2023 *Prescription for Prosperity* recommended establishing a dedicated biosecurity levy to fund capability improvements independent of annual budget cycles.⁵⁸⁹

Fisheries: balancing commercial and recreational interests

New Zealand's fisheries management receives less attention than agriculture but faces its own challenges. Around 600,000 New Zealanders – roughly thirteen percent of the population – fish recreationally in inshore waters each year.⁵⁹⁰ Fishing is integral to the Kiwi way of life. But the management system has not kept pace with growth.

The Quota Management System (QMS), introduced in 1986, is internationally recognised as a successful application of property rights to fisheries management. Giving commercial operators secure, tradeable quota aligned their incentives with long-term stock health. But the QMS left recreational fishing outside its logic, and the consequences have accumulated over decades.

The evidence of decline is concrete. The snapper bag limit along the northeast North Island fell from 30 fish per day in 1985 to seven in 2014.⁵⁹¹ The blue cod fishery in the Marlborough Sounds dropped from 12 fish per day to two, with gear restrictions, seasonal closures and area closures layered on top. Quotas for rock lobster in the Hauraki Gulf and finfish in Hawke's Bay have also been reduced.⁵⁹² These species are amongst the most valued recreational targets in the country.

The underlying management problem is not simply that recreational fisheries receive less attention than commercial ones, though they do. The QMS has also failed to address compliance failures within the commercial sector: misreporting of catch, discarding of unwanted bycatch, and high-grading of targeted species.⁵⁹³ When total allowable catches are set against

incomplete data, recreational fishers pay the price through increasingly restrictive bag limits.

A further structural weakness is how total allowable catches are allocated between sectors. The Minister of Fisheries holds full discretion. That puts commercial and recreational interests in perpetual competition for more favourable allocations rather than giving either sector genuine security.⁵⁹⁴

British Columbia's halibut fishery demonstrates an alternative. Two-way quota transfers allow recreational fishers to lease or acquire quota from commercial operators. That enables market price mechanisms to reveal where fish are most valued.⁵⁹⁵ Western Australia has gone further, developing a mechanism that adjusts allocations over time as social values change – a model the Initiative studied directly through a fisher exchange programme in 2017.⁵⁹⁶

Preserving recreational fishing for future generations requires three things that current policy does not deliver.

First, recreational catch must be properly integrated into stock assessment and total allowable catch-setting. This requires sustained investment in recreational catch monitoring – an area in which New Zealand's data remains conspicuously weak.⁵⁹⁷

Second, recreational fishing interests need a recognised institutional voice. Fisheries policy is shaped by well-organised commercial and customary sectors and recreational fishers, despite their numbers, lack comparable representation.⁵⁹⁸ Western Australia has established a peak body – RecFishWest – recognised by government as the central point of contact for the recreational sector and funded through dedicated levies.

New Zealand could replicate this model. The Initiative's earlier report suggested funding from the petrol excise duties that recreational

boat users pay, currently without commensurate return to their fishing experience – the duties are currently used solely to fund roading (and recreational fishers are unable to claim excise duty from petrol used to power their boats). But the government has signalled that fuel excise duties will be abolished in favour of per-kilometre road user charges. The Initiative supports that change (see chapter 5). But because boats will no longer pay excise duties, there will no longer be a misallocated funding stream that could pay for a recreational fisher peak body. An alternative would be to set fees on fishing licences for this purpose.

Third, the basis for allocation decisions needs to shift from ministerial discretion to a principled framework that gives both the commercial and recreational sectors security. The framework must take recreational catch seriously in decisions that govern shared stocks.

The risk that cannot be regulated away

Alternative proteins – precision fermentation, cell-cultured meat, plant-based substitutes – present a challenge to New Zealand’s meat and dairy industries. Regulatory reform cannot mitigate the fall in global demand for animal proteins. New Zealand will need to diversify to meet this challenge.

The disruption timeline is contested. Industry advocates argue that precision fermentation could reach price parity with dairy protein within years rather than decades.⁵⁹⁹ Even so, predictions of imminent disruption have circulated for years without materialising at scale.

What is not contested is New Zealand’s exposure. Animal proteins account for approximately 55 percent of goods export revenue – dairy, meat, and seafood combined.⁶⁰⁰ No other developed economy has comparable concentration risk.

The appropriate policy response is not to subsidise incumbents or obstruct alternatives. It is to ensure that New Zealand producers can compete on quality, provenance and sustainability. These are attributes that alternative proteins cannot replicate. Gene technology and productivity reforms that keep conventional production cost-competitive should also be pursued.

No specific policy recommendations are made on this issue. The sector’s future depends on factors beyond any New Zealand government’s control. Domestic policy settings that enable efficient diversification must be the focus.

Recommendations

The incoming government should:

- 1. Amend the HSNO Act to establish risk-proportionate regulation of gene technology.** Gene editing techniques that introduce no foreign genetic material should face a streamlined approval pathway proportionate to risk rather than the precautionary framework applied to transgenic organisms.
- 2. Establish a dedicated biosecurity capability levy.** Border operations, detector dog programmes and surveillance systems should be funded through a transparent, dedicated levy rather than annual budget appropriations.
- 3. Enforce NAIT compliance with meaningful penalties.** Require recording of all movement events, fund audit and inspection capability, and ensure penalties create genuine deterrence.

- 4. Establish standing biosecurity compensation arrangements before the next major incursion.** Cost-sharing principles, eligibility criteria and dispute resolution processes should be agreed in advance rather than improvised during a crisis.

- 5. Reform the total allowable catch allocation framework.** Replace ministerial discretion with a principled, rules-based allocation process between commercial and recreational fishing interests.

- 6. Establish a government-recognised peak body for recreational fishing interests.** A body modelled on Western Australia's RecFishWest would give recreational fishers a formal voice in allocation decisions.

CHAPTER 25

Emergency Management

Disasters reveal the true resilience of a nation's institutions. When the Auckland Anniversary Floods and Cyclone Gabrielle struck in early 2023, they exposed significant weaknesses in New Zealand's disaster management architecture. The cost of the damage exceeded \$14 billion. Fifteen lives were lost. The subsequent Government Inquiry concluded that the emergency management system was “not fit-for-purpose” for managing large-scale, multi-regional events.⁶⁰¹

The Initiative's prior work in the area did not extend to civil defence. But its report *Recipe for Disaster: Building Policy on Shaky Ground* argued that New Zealand needed pre-vetted emergency frameworks, clear fiscal boundaries, and market-driven risk signals.⁶⁰² These recommendations remain salient.

Since 2023, the government has taken steps toward reform. The RBNZ's proposals for an insurance Resolution Authority represent potential progress, though their scope and design require scrutiny. The August 2025 Cabinet decisions on emergency management legislation attempt to clarify command structures. The National Adaptation Framework signals movement toward risk-based pricing. The overhaul of the earthquake-prone building system will save building owners billions by focusing requirements where risks are greatest.

Despite these positive developments, New Zealand's disaster response framework is overly centralised and bureaucratic. The Severe Weather Emergency Recovery Legislation Act 2023 grants ministers emergency powers that override constitutional norms. Successive governments have established a culture in which taxpayer-funded bailouts curtail the market

signals that would otherwise guide development away from hazardous areas.

Many property owners have been subject to unfunded mandates attendant on heritage regulations or undue costs associated with earthquake strengthening regulations. Taken together, these regulations can cause a perfect storm. When a council requires a heritage building to undergo earthquake strengthening, the owner may be in the invidious position of being unable to afford the extra cost associated with heritage compliance. Meanwhile the earthquake risk classification makes selling an unattractive proposition, and heritage classification prevents demolition. As a result, some heritage buildings, like Wellington's Gordon Wilson Flats, become derelict eyesores until the situation warrants Ministerial attention.

The fiscal response and its precedents

The Hipkins government's fiscal response to the 2023 disasters established precedents that could influence future disaster responses. The Crown-Council cost-sharing agreements for property buyouts appeared reasonable in isolation but may create systemic distortions that undermine long-term resilience.

The Crown committed \$387 million for Auckland buyouts, matched by council funding. Hawke's Bay received \$92.5 million in Crown contributions, with similar arrangements for other affected regions.⁶⁰³ The 50:50 cost-sharing model for Category 3 properties – those where risk to life is intolerable and mitigation unfeasible – effectively socialised the private risk of property ownership in hazardous zones.

This approach contradicts fundamental economic principles. As Eric Crampton argued in March 2023, “higher insurance premiums in risky places would encourage more building in safer places, without anyone having to issue edicts.”⁶⁰⁴ By raising the prospect of future buyouts, the government interrupted these price signals. Property owners in flood plains and coastal zones may expect taxpayer rescue. Insurance premiums then rise to actuarially fair levels and land values have ceased to reflect risk.

The fiscal implications of this situation will compound over time. Unlike the Christchurch earthquakes or Covid-19, when New Zealand had fiscal buffers, the next major disaster will strike a fiscally constrained nation.

The National Adaptation Framework released in October 2025 recognises these problems. It proposes movement toward beneficiary-pays principles and attempts to clarify cost-sharing arrangements.⁶⁰⁵ However, implementation remains incomplete, and the political economy of retreat – the political difficulty of telling property owners they must bear their own risk - has not yet been confronted.

However, infrastructure funding and financing mechanisms designed to help deliver infrastructure for new housing could also help communities build resilience. Ratepayer authorisation ballots, discussed in 6(v), above, could also help communities to jointly cover the cost of infrastructure that jointly protects their properties, like seawalls and levees. They could then vote to levy themselves to pay for the works.

Currently, councils fear being responsible for mitigation costs decades from now if they allow people to continue living in riskier places. So councils can be reluctant to let people voluntarily bear the risk of having, for example, a seaside bach. Ability to set *caveat emptor* designations where council could retreat from service provision if costs increased, coupled

with workable mechanisms for communities to levy themselves to fund ongoing infrastructure provision, could provide a viable alternative.

Earthquake strengthening and heritage protection

The tension between earthquake safety and heritage preservation illustrates a broader failure in New Zealand’s approach to property rights. When councils can impose heritage designations without owner consent, they create unfunded mandates that distort markets, delay essential safety work, and prevent demolition when that is the most economic option. Most seriously, they endanger lives.

The Initiative’s 2016 report *Deadly Heritage*, produced jointly with Deloitte, documented these problems extensively.⁶⁰⁶ The 2023 *Prescription for Prosperity* recommended that councils be required to either obtain owner consent for heritage listings or purchase a compensation easement. This would force councils to internalise the costs they impose, encouraging them to focus preservation efforts on genuinely significant buildings rather than pursuing comprehensive listing for its own sake.

Policy changes since then have eased some of the underlying problem.

Cabinet’s September 2025 decisions overhauled the earthquake-prone building system entirely. The removal of potential mandatory concurrent fire and accessibility upgrades eliminates a major barrier to strengthening work. The shift to risk-based prioritisation removes approximately 2,900 buildings from the system, focusing regulatory resources where the most urgent work is needed.

The Resource Management (Consenting and Other System Changes) Amendment Act 2025 also created mechanisms for councils to de-list heritage buildings through the Streamlined

Planning Process. It helped Wellington City Council to remove heritage status from the Gordon Wilson Flats, ending a saga that had dragged on since 2011.⁶⁰⁷

These interventions addressed specific impasses but not their root cause – that councils can invest properties with heritage status without owner consent. Heritage listing imposes substantial costs on private individuals to provide public amenity. The owner receives no compensation and councils are not constrained. Owners become trapped in a regulatory limbo in which strengthening is uneconomic, but demolition is prohibited.

The Gordon Wilson Flats exemplified this dysfunction. The building's owner (Victoria University of Wellington), the local council, and the relevant Minister all agreed the structure was derelict and should be removed. Yet the building's heritage status made the rational action – demolition – almost impossible. Legislative intervention was required to achieve what should have been straightforward.⁶⁰⁸ Similar situations will recur because the government has not addressed the underlying property rights distortion.

Shifting heritage preservation to being an on-budget expenditure for government, rather than a regulatory imposition on owners, would force prioritisation.

Failure to address this issue reflects a broader reluctance to confront the economic reality of preservation. When the public benefits from heritage buildings, the public purse should contribute. When councils impose preservation mandates, they should bear commensurate costs.

The path forward requires three elements. First, any new heritage listing should require either owner consent or council purchase of a compensation easement covering the reduction in property value and increased compliance costs.

Second, councils should establish clear criteria and streamlined processes for de-listing buildings where strengthening is economically irrational or public safety risk is unacceptable. Third, central government should establish a dedicated fund for heritage-sensitive strengthening of nationally significant buildings, conditional on local government co-contribution.

These reforms would focus heritage protection on buildings with authentic heritage value. Crowd-funding and special levies approved by local referenda (see Chapter 6) could supplement council funds. Central government could also provide funding toward nationally significant buildings.

Post-disaster recovery frameworks

Recipe for Disaster documented the factors that hindered recovery following the Christchurch earthquakes in 2010 and 2011. These included overlapping authorities, revised city planning processes, and the absence of pre-agreed frameworks. The report recommended separating planning and building functions for government projects, ensuring that property takings follow Public Works Act provisions, and securing prompt court rulings to resolve critical legal uncertainties (such as in Christchurch's case the lawfulness of designating "red zone" areas for property buyouts and distinguishing between insured and uninsured property owners in government offers. It also recommended that private insurers take the lead in insurance adjustment after an event, rather than leaving that to EQC (now the Natural Hazards Commission).⁶⁰⁹

Unfortunately, the approach to disaster recovery has evolved little since the Christchurch events. The government has not established clear frameworks for recovery governance, property acquisition, or regulatory flexibility during reconstruction. Without reform of these

frameworks, there is a substantial risk that the same mistakes – anchor projects, precinct designations, and prolonged uncertainty about property rights – will recur following future disasters.

The government has adjusted insurance arrangements as recommended in *Recipe for Disaster*. But no “off-the-shelf” recovery legislation exists. There are no pre-agreed templates to guide property acquisition or business support and no automatic triggers to suspend peacetime regulations during reconstruction. When the next major disaster strikes, the same ad-hoc scramble will likely occur.

However, progress in resource management reform toward competitive urban land markets would obviate the need for many of these contingency plans. *Recipe for Disaster* urged the identification of rules that hinder new construction and that could automatically be eased in a disaster. For example, Christchurch maintained rules against the kinds of secondary suites that are common in Wellington. Automatically abating those kinds of rules, in a crisis, would provide for a more flexible response. Properly enabling competitive urban land markets would solve the problem more directly.

The path not taken

The most significant gap in the government’s response is philosophical rather than technical. Despite partial reforms, the underlying approach remains one of central control and taxpayer subsidy rather than market signals and risk ownership.

The Initiative’s vision is for a system under which insurance premiums accurately price risk, guiding development away from dangerous areas without regulatory edicts. Property owners could build in hazardous zones if they choose,

but with absolute clarity that no bailouts will follow. Councils would have both resources and incentives to invest in resilience and communities would strengthen their own capacity rather than waiting for central government direction.

Realising this vision requires political courage. It would mean telling existing property owners in hazardous areas that future disasters will be their risk to bear. Insurance companies and the Natural Hazards Commission would have to set prices that accurately reflect risk. But waiting will only worsen the problem.

Recommendations

The incoming government should:

- 1. Draft a Civil Defence Emergency Powers (Dormant) Act** with full Select Committee scrutiny, providing pre-approved but strictly limited emergency powers activated only by formal proclamation, with clear sunset clauses and constitutional safeguards.
- 2. Announce the end of taxpayer-funded property buyouts**, making clear that future disaster damage is the property owner’s risk, allowing insurance and property markets to function and price risk accurately.
- 3. Establish and maintain lists** of regulatory provisions, whether in the Building Act or in council zoning overlays, that should be automatically suspended during relevant emergencies. For example, heritage restrictions could be automatically suspended after an earthquake event.
- 4. Create clear recovery frameworks** including template legislation for recovery agencies, standardised property acquisition processes, and automatic regulatory flexibility during reconstruction.

5. **Include caveat emptor overlays** in national planning templates established as part of resource management reforms. These would allow development at owners' risk in hazardous areas, coupled with mandatory hazard disclosure and absolute clarity that no future bailouts will occur. This option can include shifting ownership, control, and responsibility for local infrastructure to a local board established for that purpose.
6. **Establish rigorous cost-benefit requirements** for all resilience spending, ensuring investments target the highest-value risk reductions rather than political visibility. Enable infrastructure funding and financing options, enabling owners to jointly provide for their properties' protection.
7. **Require owner consent or compensation for heritage listings**, mandating that councils either obtain owner agreement before adding properties to heritage schedules or purchase compensation easements covering the demonstrable reduction in property value and increased compliance costs, ending the regulatory taking inherent in the current system.
8. **Establish clear de-listing criteria and processes**, requiring councils to create transparent, streamlined procedures for removing heritage status from buildings when the owner wants their building delisted.
9. **Expand the existing National Heritage Preservation Incentive Fund** to encourage owners to provide valuable heritage amenities voluntarily as heritage restrictions are eased. The funding would also help bridge the gap between standard seismic remediation and heritage-sensitive repairs for buildings of genuine national significance, with central funding conditional on local government co-contribution.

CHAPTER 26

Lifestyle Regulation

Lifestyle regulation sits at the intersection of public health and individual liberty. Get it wrong, and you create black markets, punish the wrong people, or achieve nothing at all. Get it right, and you target genuine harms without treating the entire population as patients requiring treatment.

The years since 2023 have tested these principles. The Luxon government inherited a tobacco policy headed toward prohibition, an alcohol regime focused on population-level restrictions, and persistent calls for sugar taxes from public health advocates. It also inherited the Initiative's recommendations to target harmful behaviour directly, leave ordinary citizens to make their own choices, and resist the temptation to treat lifestyle regulation as a substitute for genuine public health improvement.

On tobacco, the government repealed prohibitionist measures that would have expanded what was already an obvious but small illicit market. That market has since grown considerably. Had the Ardern government's intention to limit legitimate cigarette sales to those containing virtually no nicotine gone ahead, the entire market may well have turned black.

The coalition agreements that formed the current government promised to remove excise from non-smoked tobacco products and to reform the regulation of smokeless tobacco and oral nicotine products. The government shifted to harm-proportionate excise treatment for heated tobacco, rather than removing excise entirely. But reduced-harm products like snus and nicotine pouches remain forbidden.

On alcohol and the night-time economy, the government has done little. On sugar taxes, it has

held the line against advocacy pressure without embracing an alternative approach. The record is mixed.

Resisting the sugar tax temptation

New Zealand has no sugar tax, and it should keep it that way.

Despite persistent advocacy from public health groups and professional bodies for a sugary drinks levy, no government has legislated one. The 2024 and 2025 Budgets contained no such measure, and ministerial statements suggest continued political reluctance. This is the right call – but the case for resistance needs to be explained, not merely asserted.

The Initiative's 2016 report, *The Health of the State*, examined the evidential foundations for lifestyle taxes and found them wanting.⁶¹⁰ The report showed that the evidence linking sugar taxes to reduced obesity is weak, that such taxes are regressive. They fall hardest on those least able to afford them and the paternalistic justifications offered for them rest on contestable assumptions about individual autonomy and state competence. The report argued that targeted interventions addressing specific harms outperform broad-based taxes that inconvenience everyone.

The Initiative's analysis of Ministry of Health documents released under the Official Information Act, also in 2016, reinforced this conclusion.⁶¹¹ Officials themselves judged that there is limited evidence that a New Zealand sugar tax would reduce obesity. The documents revealed a gap between public health advocacy

and the evidentiary caution of those responsible for policy advice.

The Initiative's 2018 submission to the Tax Working Group made the same case against corrective taxes more broadly, arguing that lifestyle taxes rarely achieve their stated objectives and often produce unintended consequences.⁶¹² Nothing in the intervening years has changed this assessment. International evaluations of sugar taxes show modest effects on purchasing behaviour but little demonstrable impact on population health outcomes.⁶¹³

The government's current approach relies on non-tax interventions. Health NZ continues to run health promotion campaigns encouraging reduced consumption of sugary drinks as part of broader healthy eating and child health messaging.⁶¹⁴ It has also implemented the National Healthy Food and Drink Policy restricting sugary drinks in hospitals and other health sector facilities. While the Initiative supports information-based public health campaigns, it does not endorse paternalistic restrictions on what individuals can purchase in hospital cafeterias or other public facilities. People should be free to make their own choices about consumption, even if those choices are not optimal for health. The focus should remain on campaigns that inform and educate.

Yet the absence of a sugar tax reflects political caution rather than principled rejection. No minister has made a public case against such taxes grounded in evidence and liberty. The advocacy pressure continues, and a future government facing fiscal constraints may find the prospective revenue tempting. The incoming government should move from passive resistance to active rejection, making clear that sugar taxes are not merely deferred but ruled out on principled grounds.

Reviving the night-time economy

Cities with vibrant nightlife require deliberate policy choices. The Initiative's 2019 report, *Living after Midnight: For a Better Night-Time Environment*, examined why New Zealand's cities struggle to maintain vibrant entertainment districts and what could be done about it.⁶¹⁵

The report identified two principal barriers.

First, urban intensification or normal migration can result in people who do not like nightlife choosing to live in places with vibrant nightlife. They then lodge noise complaints that either close or encumber the existing venues.

Cities must be able to change over time. Urban change can mean that noise from a venue shifts from being mostly harmless to being burdensome for neighbours. At the same time, in a world with plentiful development opportunities, it should be possible for people to move to apartments targeted at those preferring quiet evenings, or to those geared to those who love the nightlife.

Councils could consider nightlife zoning overlays that set higher thresholds for noise complaints and encourage those who do not like nightlife to choose apartments elsewhere. Ample supply of both types of zoning would ensure cities can remain dynamic while providing residents with choice. This kind of choice could be facilitated as New Zealand shifts to more competitive urban land markets, as described further below.

At the same time, police and medical officers of health often become involved in licensing processes even if venues have not had identifiable issues, making it harder to acquire or renew licences.

Second, fragmented governance treats the night-time economy as a problem to be managed by multiple agencies rather than an asset to be cultivated through coordinated strategy. The

report noted Amsterdam’s night mayor model, which provides dedicated governance for the after-hours economy. It also recommended decentralising decision-making to reflect community needs and interests.

The government has done little on this front. The core recommendations sit where The Initiative left them in 2023, despite three years of opportunity, though some councils have made modest progress in appointing nighttime coordinators. There is some urgency to act because New Zealand’s city centres are under pressure, with reports of venue closures and declining CBD vibrancy.

Planning reform

The government’s broader resource management reforms are promising, albeit indirectly. The Resource Management (Consenting and Other System Changes) Amendment Act 2025 and the planned replacement of the RMA with simplified legislation could, in principle, make it easier to establish and maintain entertainment precinct overlays in which noise standards are considerably eased. Broad zoning liberalisation would enable differentiation while maintaining ample supply of quieter and more vibrant living environments.⁶¹⁶

As a concrete example of what could be possible, consider the area around Eden Park – a stadium and concert venue in Auckland in which a minority of neighbours prevent the Park from accommodating more concerts and events.

The government could abolish all restrictions facing Eden Park. It could simultaneously offer to buy out any neighbour feeling harmed by the increase in noise and activity, paying a premium on prior valuation. The government could then upzone the entire neighbourhood, setting much higher height limits with mixed-use zoning and an overlay limiting noise complaints. The value uplift from the rezoning could more than cover the cost of the initial buyouts. The area would

attract people who enjoy nightlife, concerts, and events – and easy transit access to downtown via Kingsland Station.

Local governance reform

The government is reviewing local governance structures. The Initiative’s 2024 report *Making Local Government Work: Improving Democratic Oversight* highlighted the need for better local accountability and devolution of power.⁶¹⁷ It diagnosed a “democratic void” at council level, where mayors and councillors often lack the tools to direct the organisations they nominally lead. The report recommended a mix of strong-mayor powers, Auckland-style mayoral offices, and greater use of direct democracy. Chapter 6 discusses these recommendations in more detail.

This framework could accommodate night mayor roles – dedicated positions that coordinate the interests of businesses, residents, police, transport authorities, and councils in managing the after-hours economy. Amsterdam’s night mayor model demonstrates what coordinated governance can achieve. A night mayor acts as strategic intermediary, ensuring that regulations reflect specific community needs rather than being imposed uniformly from above. Major New Zealand cities should adopt equivalent roles as part of broader local government reform.

Alcohol licensing fairness

The August 2025 alcohol licensing reforms provide modest improvement for hospitality operators.⁶¹⁸ Licence applicants now have right of reply to objectors. Objections are restricted to local communities, and licence renewals under new Local Alcohol Policies must be amended rather than declined outright. These changes improve procedural fairness but do not address the underlying regulatory hostility to the night-time economy. They also do not remove the post-code lottery risk of the disposition of the local police officer responsible for alcohol licensing.

Targeting alcohol harm

Alcohol policy in New Zealand remains dominated by population-level measures that inconvenience moderate drinkers while doing little to address harmful consumption. The 2023 *Prescription for Prosperity* recommendation to shift from excise taxes and restrictive licensing conditions toward measures targeting harmful use remains largely unimplemented.

The government increased the alcohol levy from approximately \$11.5 million to \$16.6 million annually in July 2024, funding expanded harm-reduction activities.⁶¹⁹

Laudably, the levy aims to target measures reducing the risk of Foetal alcohol spectrum disorder (FASD). Population-level measures are poorly suited to reducing risky consumption by the small proportion of women who are pregnant at any given time.

The August 2025 reforms modernised licensing processes, required licensed premises to offer low-alcohol alternatives, and improved age verification requirements.⁶²⁰ The February 2025 Community-based Approaches to Reduce Alcohol Harm programme provided \$1 million for local prevention initiatives, a modest beginning. Its effectiveness remains to be demonstrated.⁶²¹

The case for targeted monitoring

Evidence-based targeted interventions for those whose drinking causes harm to themselves and others have not been adopted, although research aimed at reducing FASD risk is a move in the right direction. *Living after Midnight*, made a case for a different approach.⁶²²

The report argued that population-level controls – excise taxes, restricted trading hours, and reduced outlet density – are blunt instruments that impose costs on all drinkers while doing little to change the behaviour of those who cause harm. It examined South Dakota’s 24/7 Sobriety

Programme as an alternative model built on different principles.

Under the South Dakota regime, judges impose monitored no-alcohol conditions on repeat alcohol-related offenders, with twice-daily breath testing or continuous alcohol monitoring via ankle bracelet. The programme’s effectiveness stems from its use of swift, certain, and proportionate sanctions. A violation produces immediate short-term consequences like a single night in jail the weekend immediately following, not proceedings months later with uncertain outcomes. This predictability changes behaviour in ways that delayed, but more severe punishments do not.

RAND Corporation research consistently shows the programme substantially reduced repeat drink-driving, family violence, and mortality.⁶²³ It works because it targets those who cause harm while leaving responsible drinkers alone. The fiscal costs are modest compared to the harm avoided, and the social benefits extend beyond the offenders themselves to the families and communities affected by alcohol-fueled violence.

Building on existing infrastructure

New Zealand already has the building blocks for this approach. Since 2017, judges have been able to impose alcohol detection anklet monitoring on community-based offenders with abstinence conditions. A trial beginning that year showed 97 percent of monitored days were sober.⁶²⁴ The Alcohol and Other Drug Treatment Court provides an alternative pathway for offenders whose crimes are driven by addiction.⁶²⁵

These are small-scale programmes. They do not replicate the swift-and-certain sanctions architecture that makes South Dakota’s model effective. The current New Zealand framework monitors compliance but lacks the immediate, predictable consequences for violations that drive behavioural change. Expanding the infrastructure is necessary but not sufficient.

The judicial and corrections processes must be redesigned to impose swift, certain, and brief sanctions for violations.

The incoming government should commit to a comprehensive trial of the 24/7 model, building on existing infrastructure while adding the sanctions architecture that makes the approach effective.

Tobacco harm reduction

Tobacco policy since 2023 is emblematic of both the promise and the contradictions of the government's approach to lifestyle regulation.

The promise: repealing prohibition

In February 2024, the Luxon government repealed the Ardern government's Smokefree 2025 endgame measures.⁶²⁶ Gone are the very low nicotine content requirements that would have made cigarettes non-addictive but unpalatable. Gone is the 90 percent reduction in retail outlets that would have created tobacco deserts in low-income communities. Gone is the tobacco-free generation policy that would have permanently prohibited sales to anyone born after 1 January 2009. Had those measures not been removed, the growth of the illicit market would very likely have been much stronger.

The Initiative supported this repeal. The Initiative's 2018 report *Smoke and Vapour: The Changing World of Tobacco Harm Reduction* argued that harm reduction – making it easier for smokers to shift to far less harmful alternatives – offered a more effective and less coercive path to reducing smoking rates than prohibition.⁶²⁷ It showed that different products and methods work for different smokers, and that smokers deserve access to a range of products that reduce harm. The Smokefree 2025 endgame measures represented the opposite approach. They would have made smoking harder through regulatory restriction rather than making quitting easier through accessible alternatives.

The endgame measures were prohibitionist fantasy dressed up as public health policy. They would have created an even larger and thriving black market, generated ram raids on remaining retailers, and pushed smokers toward illicit supply rather than reduced-harm alternatives. The government correctly identified these risks and acted decisively.

The contradiction: restricting harm reduction

Having repealed tobacco prohibition, the government has simultaneously tightened restrictions on vaping – the very harm-reduction tool that offers smokers an exit from combustible tobacco. This is incoherent.

The Smokefree Environments and Regulated Products Amendment Act (No 2) 2024 restricted where vaping retailers can operate, banning them near schools, early childhood centres, and marae – restrictions that took effect in December 2024.⁶²⁸ From June 2025, disposable vapes were banned entirely, display and visibility of vaping products in stores is prohibited, and discounts and promotions are forbidden.⁶²⁹

The government's own Regulatory Impact Statement warned these measures “risk fueling an illicit market like Australia's.”⁶³⁰ Australia's restrictive vaping approach has created exactly the black-market New Zealand should seek to avoid, with illicit vapes widely available while legitimate harm-reduction products remain difficult to access.

The Initiative's September 2024 submission on the Amendment Bill suggested a different approach to reducing youth vaping.⁶³¹

Selling vapes to youths is already prohibited, although enforcement action can be weaker than it should be. But social supply by older friends and relatives remains unaddressed, despite being an important source of vapes for youths.

A simple legislative solution is available and was suggested in The Initiative's submission.

The Sale and Supply of Alcohol Act includes prohibitions on supplying minors with alcohol without the permission of the minor's parent or guardian. It includes penalties for such supply. The provisions regarding 'social supply' could easily be brought into the Smokefree Environments Act.

Parental consent requirements seem particularly appropriate where parents may wish to encourage a teenaged smoker to shift to a less harmful alternative.

Snus and oral nicotine

On snus and oral nicotine products, the government has signalled interest but taken no action. Associate Minister of Health Casey Costello indicated in May 2024 that the government was considering legalising nicotine pouches and snus.⁶³² As of late 2025, snus can be imported for personal use but cannot be sold commercially. This halfway arrangement satisfies no one.

Sweden has demonstrated what comprehensive harm reduction can achieve. By permitting snus alongside liberal vaping regulations, Sweden has driven smoking rates to among the lowest in Europe. New Zealand should learn from this success rather than pursuing the contradictory path of tobacco liberalisation combined with vaping restriction.

Unfortunately, politics seems to have hindered sound policy. Harm-proportionate excise for reduced-harm products like heated tobacco is simply good policy. But that policy was characterised as a substantial 'giveaway' to Big Tobacco, based on excise forecasts that were obviously ludicrous at the time they were made. The government made provision for about \$38 million in lost tobacco excise revenue due to shifts to lower-excise heated-tobacco for 2025/26. The actual figure seems closer to \$3 million, less than a tenth of the amount projected.⁶³³

Politicised attacks over figures that were provably ridiculous at the time they were made may have

discouraged the government from pursuing other harm-reduction policies.

The illicit market has grown considerably. Encouraging remaining smokers to shift to other reduced-harm alternatives will be much harder if those smokers have shifted to much cheaper illicit cigarettes before snus and nicotine pouches are legalised. Action against illicit tobacco should be more strongly enforced, combined with a broadened range of reduced-harm alternatives.

The remaining gaps

The reforms since 2023 have been selective. The government acted decisively on tobacco prohibition but has not followed through with a consistent harm-reduction framework. It has held the line on sugar taxes without making an affirmative case against them. It has largely ignored the night-time economy. And it has maintained population-level alcohol restrictions while declining to adopt targeted interventions with proven effectiveness.

There is no principled framework to guide lifestyle regulation. The government's decisions appear reactive – repealing measures it inherited and resisting measures it finds politically inconvenient – rather than grounded in a coherent view of when state intervention in personal choices is justified and when it is not. The Initiative's research provides a framework that targets genuine harms, uses the least restrictive means effectively, and respects individual autonomy when behaviour affects primarily the person making the choice.

The tension between harm minimisation and continued prohibition of reduced-harm alternatives is unresolved. Simple legislative frameworks addressing social supply of vaping products to youths have yet to be taken up.

Resource management reform offers opportunities for cities to provide broad areas

where vibrant nightlife is encouraged, and others where stricter noise controls remain in place.

Alcohol policy remains largely stuck in a population-level paradigm, despite the 24/7 sobriety model having been available for over a decade. New Zealand has the infrastructure to implement it. The evidence of its effectiveness is strong. Yet the government continues to fund modest community programmes while declining to adopt the targeted, monitored approach that addresses harmful drinking directly.

The incoming government has an opportunity to move from reactive decision-making to principled reform. The Initiative's research provides the foundation. What is needed is political commitment to a coherent approach that targets harm, respects liberty, and learns from international evidence.

Recommendations

The incoming government should:

1. **Reject sugar taxes on principled grounds. Move from passive resistance to active rejection.** Minimum pricing regimes should also be ruled out. Resources currently devoted to defending against these proposals should be redirected to targeted public health campaigns.
2. **Remember the night-time economy when setting zoning overlays in the new planning system.** Established cultural and entertainment precincts should be protected from displacement by residential encroachment.
3. **Support adoption of night mayor roles in major cities.** Formal encouragement of night mayor positions would create structured coordination between hospitality, entertainment, policing and transport.
4. **Formally adopt and trial a 24/7 sobriety programme.** A comprehensive trial of the South Dakota model, combining twice-daily alcohol testing with swift graduated sanctions, would target high-risk offenders rather than imposing population-wide restrictions.
5. **Evaluate and, if successful, expand continuous alcohol monitoring.** If the 24/7 trial demonstrates effectiveness, extend continuous monitoring as a sentencing and bail condition for all alcohol-related offences.
6. **Shift alcohol policy focus from population measures to targeted interventions.** Minimum pricing and further excise increases impose costs on responsible drinkers to influence the behaviour of a small minority. Targeted enforcement and monitoring are more effective and more proportionate.
7. **Maintain the repeal of Smokefree 2025 endgame measures.** Resist any pressure to reinstate very low nicotine content requirements, the generational ban, or severe retail restrictions.
8. **Re-evaluate June 2025 vaping restrictions.** The disposable vape ban, display restrictions and promotion prohibitions should be reviewed against evidence of their effects on both youth uptake and adult smoking cessation.
9. **Formally legalise commercial sale of snus and oral nicotine products.** These products have contributed to dramatic declines in smoking rates in Scandinavia and their legal status in New Zealand should reflect that evidence.
10. **Resist further restrictions that treat vaping as equivalent to smoking.** A regulatory distinction between combustible tobacco and reduced-risk alternatives should be maintained.

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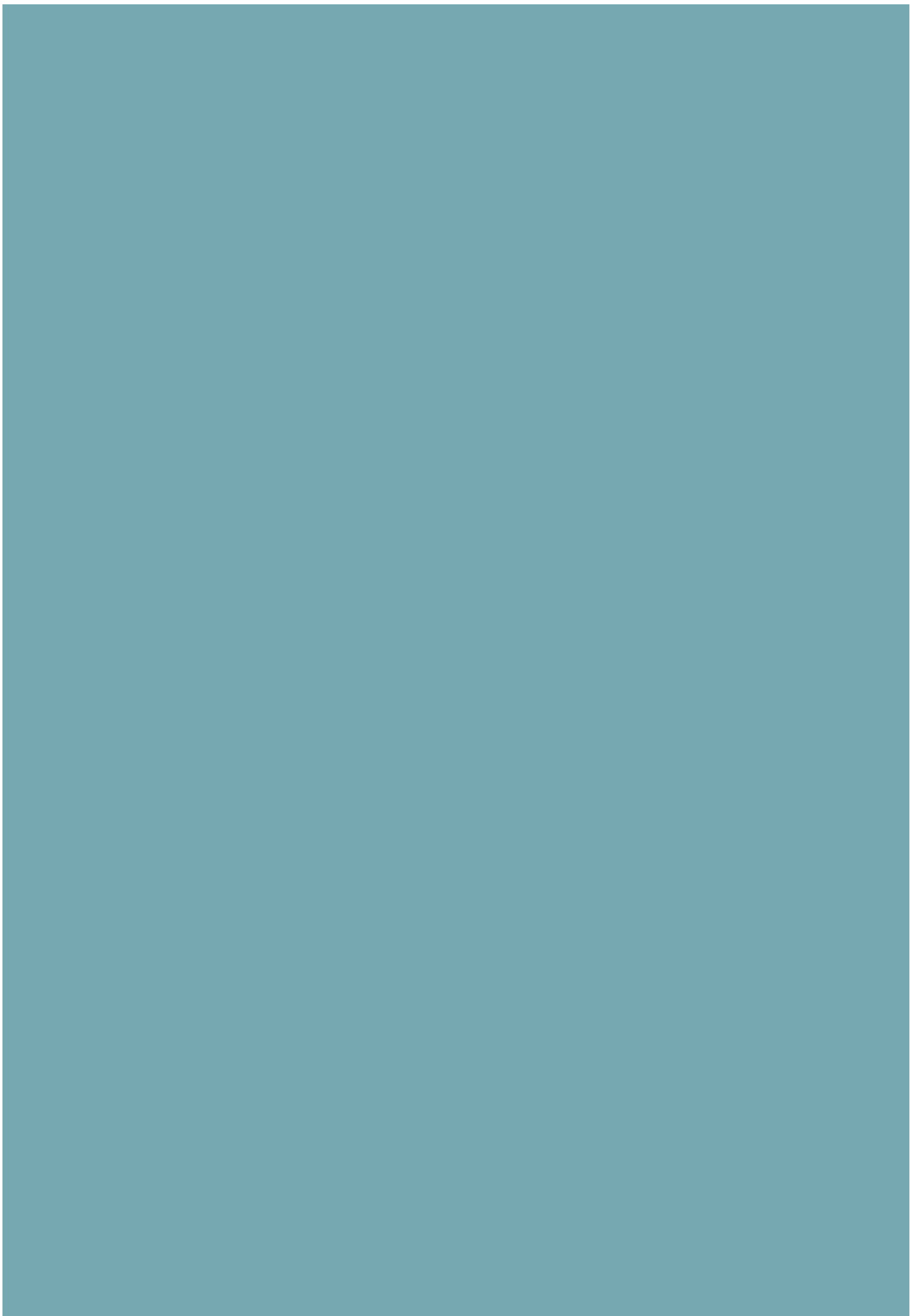
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New Zealand's problems are not mysterious. Housing costs too much because planning rules restrict supply. Infrastructure is underfunded because the wrong level of government bears the cost. Productivity has stalled because regulation discourages the investment that would revive it.

Prescription for Prosperity 2026 is the New Zealand Initiative's fourth briefing to the incoming government. Drawing on 14 years of published research, it sets out 235 recommendations across 26 chapters, covering fiscal policy, trade, defence, health, education, housing, immigration, resource management, energy and more.

The Luxon government made genuine progress on several fronts. But structural reform remains incomplete, and a harsher international environment has raised the stakes. This document identifies what has been done, what has not, and what the next government should prioritise.

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