

Treasury Report: Bilateral Briefing for Votes Environment and Climate Change

Attached is a briefing for the bilateral between the Minister of Finance and the Minister for the Environment at 6.30 p.m. on Thursday 19 February 2009 to discuss the budget initiatives for Votes Environment and Climate Change.

The bilateral briefing is structured as follows:

Table of overall submissions by Vote	p. 2
Analysis by Vote	p.2,5,6
Recommendations	p.7

We expect that the key issue for discussion will be whether the Minister should obtain decisions on an overall package of savings and additional expenditures at this early stage of the budget process (rather than having savings allocated to a central pool of savings). Treasury supports the Minister's proposed approach for the reasons set out in paragraph 20.

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with the Minister for the Environment at 6.30p.m. Thursday 19 February 2009.

Tom Hall
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Background

VOTES ENVIRONMENT AND CLIMATE CHANGE

1. As part of the Minister of Finance's request to Vote Ministers to carry out a line-by-line review, submission of emergency pressures and policy priorities, the Minister for the Environment submitted the following:

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Savings	6.6	8.4	1.3	1.3	1.3
Emergency pressures	-	9.5	8.0	8.0	8.0
Policy priorities	-	5.5	4.0	4.0	4.0
Total funding requested	(6.6)	6.6	10.7	10.7	10.7
<i>Capital (GST excl)</i>					
Savings	-	-	-	-	-
Emergency pressures	-	-	-	-	-
Policy priorities	-	-	-	-	-
Total funding requested	-	-	-	-	-

(The figures from 2010/11 onwards have a high degree of uncertainty. They are based on an extrapolation of various elements of the 2009/10 budget, and will need to be reviewed as part of the Ministry's overall budget review proposed in recommendation 9 below.)

Analysis

2. Treasury's view on the savings submitted by the Minister is that the department has seriously examined its forecast expenditures for savings. This has resulted in several proposals for scaling back or discontinuing programmes. Reductions in five programmes account for 90% of proposed saving. Treasury agrees with the Minister that these are low-priority expenditures. There are three programmes – Govt3, the Carbon Neutral Public Service and the Bioethics Council – that affect several other Ministers and agencies. The Minister therefore proposes that consultation with other affected Ministers and agencies take place before final decisions are made to discontinue these programmes. Since the funding for most of the activities being scaled back or discontinued is scheduled to end in 2009/10, the savings achieved is much lower in later years (\$1.3 million annually). Treasury supports the Minister's savings proposals.
3. Emergency pressures are caused by reductions in funding in 2009/10. The funding proposed enables MfE to maintain activities in high priority areas, such as the Waikato River settlement and MfE's statutory role in waste minimisation. Treasury supports the proposed funding.
4. The Minister proposes additional funding in three policy-advice areas, namely the second phase of the Resource Management Act, fresh water quality and allocation, and the ETS. Improving the quality of MfE's policy advice is a major goal of the Minister's and CE's current efforts to implement change in MfE.

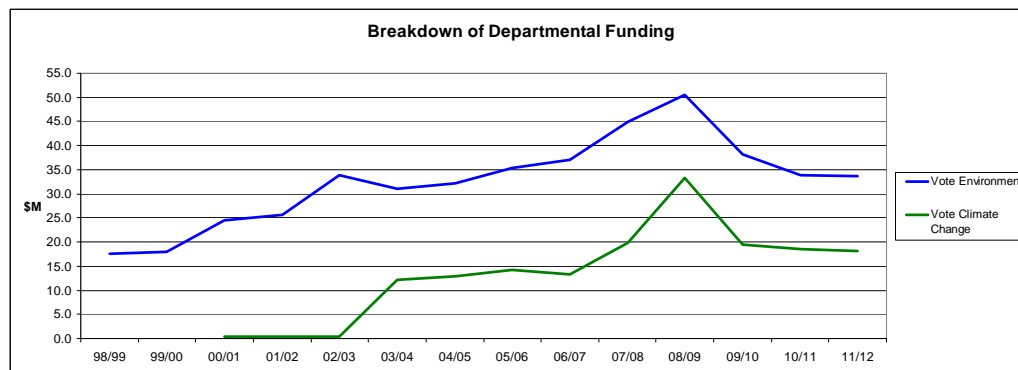
5. [information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

6. Funding is being sought for Votes Environment and Climate Change through this bilateral. This is summarised in the table below:

	<i>\$million - increase/(decrease)</i>				
<i>Funding sought for Votes Environment and Climate Change in Budget 2009</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>		15.0	12.0	12.0	12.0
At this bilateral	-	15.0	12.0	12.0	12.0
TOTAL OPERATING	-	15.0	12.0	12.0	12.0
TOTAL CAPITAL	-	0.0	0.0	0.0	0.0

Analysis of Votes

7. Votes Environment and Vote Climate Change baselines are shown in the graph below.



8. The Votes have received significant increases in funding in the past nine years due to short term funding received for various programmes.

Within Vote Climate Change these include:

- the Land Use Carbon Accounting System (LUCAS);
- the Emissions Trading Scheme;
- the Carbon Neutral Public Service.

Within Vote Environment increases are due to funding received for:

- the sustainability six-pack;
- implementing the Waste Minimisation Act;
- call-ins under the Resource Management Act;

- from 2005/06 the Ministry has received approximately \$2.5 million per year to transfer to the Lake Taupo Protection Trust.

The most significant of these items are LUCAS (\$13 million in 2008/09) and Carbon Neutral Public Service (\$7.1 million in 2007/08).

- Currently-forecast expenditures for 2009/10 are reducing by \$26 million (30%), compared with 2008/09. This decrease is mainly in the policy advice output classes of both Vote Environment and Vote Climate Change, which together fund most of the Ministry's work. There is a further forecast 10% reduction in 2010/11.
- The decrease in budget is the result of short-term funding allocated for specific initiatives coming to an end. Of the \$26 million overall reduction in 2009/10, \$17 million relates to activities that have been planned to stop; and \$9 million relates to ongoing activities (such as ETS and implementation of the Waste Minimisation Act) that do not have ongoing funding.

Vote Environment – Analysis of Initiatives and Recommendations

- Vote Environment has submitted the following new initiatives:

a Reform of the RMA and the creation of an Environmental Protection Authority

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	2.5	2.0	2.0	2.0
Treasury	-	2.5	2.0	2.0	2.0
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

- This pays for policy development and initial implementation of phase 2 of the reform of the Resource Management Act and the establishment of an Environmental Protection Agency. Since these are both well-signalled Government priorities that cannot be adequately progressed without additional funding, Treasury recommends that you support this initiative.

b Fresh Water Quality and Allocation

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	0.9	0.4	0.4	0.4

Treasury	-	0.9	0.4	0.4	0.4
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

13. This pays for policy development, co-ordination and initial implementation of reforms to the management of fresh water. Again, the Government has signalled that this is a priority for policy change. Treasury agrees that this is a key issue of economic and environmental policy, and therefore supports the proposed expenditure.

c ETS

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	2.5	2.0	2.0	2.0
Treasury	-	2.5	2.0	2.0	2.0
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

14. ETS policy development and implementation have not been funded beyond June 2009. This proposal would enable policy development and implementation beyond this date. Since this is a key economic policy and requires significant policy development, Treasury supports the proposal.

d Emergency pressures

	<i>\$million - increase/(decrease)</i>				
	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11</i>	<i>2011/12</i>	<i>2012/13 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	-	9.5	8.0	8.0	8.0
Treasury	-	8.7	7.7	7.7	7.7
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

15. This proposal funds activities that would otherwise be discontinued as a result of funding reductions in 2009/10, compared with 2007/08. The main activities relate to ETS, the Waikato River Settlement, waste minimisation and other policy advice. These are high priority activities and as such we recommend that they be funded as proposed. Following discussion with Treasury, the Ministry for the Environment has agreed that the funding required for waste minimisation is less than was proposed in its budget submission. This accounts for the difference between the departmental and Treasury proposal in the table above.

Commentary

16. The Minister is proposing an early bilateral and Cabinet decisions for two reasons:

- To enable the momentum of strategic and operational change to be kept up within MfE.
- To enable savings to be made soon in 2008/09 so that he can present to you package of savings and expenditures that is fiscally-neutral over 2008/09 and 2009/10.

17. The Minister proposes savings of \$15 million over 2008/09 and 2009/10. These are from:

- Discontinuing the Carbon Neutral Public Service Programme (\$6.9 million)
- Discontinuing the Govt3 Programme (\$1.1 million)
- Discontinuing the Bioethics Council (\$1.3 million)
- Scaling back the Recycling in Public Places Programme (\$1.6 million)
- Scaling back and integrating the Sustainable Business and Sustainable Households Programmes \$2.6 million)
- Various minor savings (\$1.7 million).

18. Treasury concurs with the Minister that these are low-priority programmes. However, the CNPS, Govt3 and Bioethics Council programmes are interagency and have not been consulted on. We therefore recommend that brief consultation with affected Ministers and agencies take place before final decisions are made (see following paragraph).

19. We understand the Minister will be seeking decisions from ECC as follows:

- The overall direction and priorities of MfE;
- Agree on his approach to the Ministry's budget (see the following paragraph); and
- Agree in principle to discontinuing or scaling back the five key low-priority programmes, with final decisions subject to consultation among affected Ministers and agencies.

Final decision-making at Cabinet two weeks later would also provide the opportunity for incorporating minor changes in forecast departmental budget numbers that should be known by that time.

20. The Minister is seeking early decision on an overall package of decisions, dealing with savings and expenditures together. One of the general principles of 2009 budget decision-making is that savings should be available for overall government priorities (that is, not retained by the agency that proposes them), with the Government making decisions on priorities in light of overall pressures. The Minister's approach is inconsistent with this. Nonetheless, we support his approach because:

- The Minister has, in our view, made a genuine attempt to make savings and has proposed funding in areas which are clearly of high priority (RMA reform, *etc.*);
- The earlier the Government makes decisions on MfE's budget, the larger the savings that can be achieved in 2008/09 by discontinuing current activities;
- MfE is in the middle of major institutional change, the success of which requires momentum of change to be kept up. Successful change is necessary both for the quality of MfE's work (and associated implications for economic and environmental success) and, over the medium-term, for achieving savings; and
- In the large fiscal picture, the proposed expenditures and savings are not significant.

Recommendations

- a. **Agree in principle/disagree**, subject to consultation among affected Ministers, to discontinue the following programmes (savings indicated over 2008/09 and 2009/10)
 - Govt3 (\$1.1 million)
 - Bioethics Council (\$1.3 million, with annual savings of \$1.3 million in later years)
 - Carbon Neutral Public Service \$6.9 million)
 - Recycling in Public Places (\$1.6 million)
- b. **Agree/disagree** to scale back the following programmes (savings indicated over 2008/09 and 2009/10)
 - Sustainable Business and Households (\$2.4 million)
 - Various minor MfE programmes (\$1.7 million)
- c. **Agree/disagree** to fund three additional priorities, as follows:
 - Resource Management Act (\$2.5 million in 2009/10; \$2.0 in 2010/11 and later years)
 - Fresh water quality and allocation (\$0.9 million in 2009/10; \$0.4 in 2010/11 and later years)
 - ETS (\$2.1 million in 2009/10; \$1.6 million in 2010/11 and later years)
- d. **Agree/disagree** to fund emergency pressures in 2009/10 and later years, as follows:
 - ETS (\$3.7 million annually)
 - the Waikato River Settlement (\$1.0 million annually)
 - implementation of the Waste Minimisation Act (\$2.2 million 2009/10; \$1.3 million annually in later years)
 - various minor areas of other policy advice (\$1.7 million annually)
- e. **Agree/disagree** that the Minister for the Environment should recommend that ECC at its meeting next week should make strategic decisions relating to the MfE budget (including seeking consultation on CNPS, Govt3 and the Bioethics Council), with detailed decisions to be made at Cabinet two weeks later.
- f. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*