

**Vote Environment
Vote Climate Change**

Baseline Alignment Proposal

Version 4.0

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Submitted by:

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Section 1: Alignment to Government Priorities

1.1 Intended Achievements

Vote Environment: I intend to continue the legislative and institutional reforms in the environmental sector. The reforms will help to grow New Zealand's economy without compromising environmental protections. I intend to achieve this by strengthening our system of environmental management - providing greater national leadership and involvement, removing red tape and enabling timely decision-making.

Vote Climate Change: I intend to implement a workable and affordable framework to ensure that New Zealand does its fair share to address the global problem of greenhouse gas pollution and climate change. I intend to -seek a careful balance between New Zealand's environmental and economic responsibilities – ensuring the New Zealand economy and jobs are not put at risk.

1.2 Strategic Direction and Priorities

1.2.a Alignment with Government's Strategic Direction

My intentions and priorities for Vote Environment and Vote Climate Change over the next three years align with the Government's strategic direction through the following key areas the Government has identified as opportunities to lift growth:

- Investment in productive infrastructure; and Removing red tape and improving regulation - Legislative and institutional reforms in the environmental sector will provide a more enabling economy for people and businesses to develop, expand and increase their productivity more efficiently. They will also assist with strengthening the regulatory environment for infrastructure development and management.
- Supporting business innovation and trade - Implementing a workable and affordable emissions and climate change framework and doing our fair share will ensure New Zealand is well placed to gain better access to resources, to develop its global markets and to maximise the benefits of free trade agreements. Reforms in the environmental sector will also assist with lifting the barriers to the development of aquaculture and increasing the value of the industry to the economy.
- Lifting productivity and improving services in the public sector - The Ministry for the Environment is committed to ensuring it lives within its existing declining baseline and has undertaken a range of activities to ensure that it operates as effectively and efficiently as possible. This includes a focus on continual improvement and in particular building the Ministry's policy capability and skill mix to ensure it delivers high quality advice into the future.

1.2.b Priorities

Vote Environment:

- Improving New Zealand's freshwater management – Implementing the *New Start for Fresh Water Strategy* through work programmes on water allocation, governance, quality, infrastructure and storage and with the active involvement of the Land and Water Forum and iwi.

- Developing the Environmental Protection Authority (EPA) – Developing legislation to establish the broader functions and responsibilities of the EPA along with consequential amendments to other legislation and progressing legislation to improve environmental management in New Zealand's Exclusive Economic Zone (EEZ).
- Resource management reforms – Improving freshwater management and establishing the EPA are key elements, along with sector specific issues including aquaculture, infrastructure, urban design and better interaction between the Resource Management Act and other statutes.

Vote Climate Change:

- Implementation of the Emissions Trading Scheme (ETS) – Allocating to trade-exposed, emissions-intensive sectors (industry and fishing sectors, followed by pre-90 forests) and developing regulations for the waste and synthetic gases sector.
- Ensuring New Zealand constructively assists in achieving a successor agreement to the Kyoto Protocol on climate change – Ensuring that New Zealand is engaged in the design of rules reflecting its interests concerning forestry and land use and ensuring its target reflects a fair share with respect to the cost to its economy in comparison with other nations.

In addition to the priorities above, I intend to progress work on improving New Zealand's environmental reporting and on a National Policy Statement for Biodiversity.

1.3 Critical Steps to Achieve Intentions

The substantive outputs from progressing the above priorities will be new, or amendments to existing, legislation and the development of regulations. Sufficient allocation of time in the legislative programme will therefore be critical for their achievement. Critical steps are:

- Improving freshwater management - Consensus will need to be reached by the Land and Water Forum on a way forward so that allocation principles and an underpinning framework can be developed. Consultation with Māori will require careful management. It is unlikely national level legislation will be introduced in this term of government, although legislation may be needed to address some local level issues, for example in Canterbury.
- EPA – Further legislation for the EPA will need to be introduced in mid 2010 and passed by the end of 2010 to enable the expanded EPA to be in place by 1 July 2011. Legislation to improve environmental management in the EEZ, which will be administered by the EPA, could be considered as part of this process.
- Resource management reforms – Legislative changes will be required during 2010 and 2011; timing is dependent on related processes *[deleted – confidentiality of advice]* and contributions from a number of agencies.
- Vote Climate Change – No further legislation is planned; however, a review of the ETS in 2011 could lead to amendments in 2012 and further regulations will be required with the full roll out of the scheme between 2010 and 2015; other steps will

depend on whether global agreement is reached on emissions targets and the extent to which the Government wishes to progress work on climate change mitigation.

1.4 Difficulty and Scalability

Achieving my intentions for Vote Environment and Vote Climate Change is ambitious. They are all related to major matters that are complex, resource intensive, have high levels of public/sectoral interest or concern, may be affected by Treaty of Waitangi settlements and iwi expectations, and have broad implications for New Zealand's economy and society. Significant allocation of time on the legislative programme will also be required. Given these constraints I consider that it will not be possible to deliver the priorities any earlier, or more rapidly, or for the Ministry to take on any additional priorities during the remainder of this term of government.

It would be possible to slow down (decrease the level of ambition) the achievement of the intentions in the Environment portfolio. I consider it would be difficult to do so in the Climate Change portfolio where there are international obligations to be met and where significant work is required to be prepared for the ongoing roll out of the ETS from 1 July 2010.

1.5 Deferred Priorities

A review of the Hazardous Substances and New Organisms Act 1996 (HSNO Act) was considered as a potential priority but is unlikely in this term of government. This proposal is related to the establishment of the EPA: the functions of the Environmental Risk Management Authority (ERMA), which implements the HSNO Act, are intended to become part of the EPA in the second phase of the EPA's development. Concerns have been raised about whether the HSNO Act strikes the right balance between economic and environmental interests with respect to new biotechnologies and new chemicals. This could only be addressed through a review of the Act. Given the resource constraints and the need to focus on development of the EPA, the review of the HSNO Act will need to be deferred until at least 2011/12.

1.6 Stopped Work

In the lead up to Budget 2009 I worked with the Chief Executive of the Ministry to review Vote Environment and Vote Climate Change and identified substantial savings in both 2008/09 and 2009/10. This review repositioned the Ministry to ensure it is well placed to deliver on government objectives and priorities. In March 2009 Cabinet agreed to discontinue the Govt³ Programme, Bioethics Council and Carbon Neutral Public Service Programme. It also agreed to scale back other programmes including the Recycling in Public Places Programme, Household Sustainability Programme and the Sustainable Business Programme. As a result I consider that the Ministry's alignment with government priorities is such that no further work programmes should be stopped in 2010/11. However, significant reprioritisation and scaling back of some activities within the Votes will be necessary to achieve the priorities. Given that uncertainties continue to exist in a number of areas including the ETS and the EPA, ongoing monitoring of expenditure will identify further reprioritisation that may be necessary during 2010/11 to ensure that essential work is delivered.

Section 2: Reprioritisation

Reprioritisation will be required in Vote Environment and Vote Climate Change to achieve the priorities in Section 1 within the Ministry's total operating baseline. The baseline will reduce further in 2010/11 as short-term funding comes to an end, but is facing additional cost pressures from new and increased activities.

2.1 New, Different or Increased Activity

2.1.1 *Environmental Protection Authority Expansion*

The new Environmental Protection Authority (EPA) was successfully established on 1 October 2009. The initial EPA was set up within the Ministry for the Environment and has limited scope and functions. Work is now underway, and will continue into 2010/11, to develop the scope, functions and structure of the expanded EPA; due to be in place by 1 July 2011, as part of the Phase Two Resource Management reforms. Work and decisions on the form (type of entity) and functions of the expanded EPA are still required. For the EPA to be fully operational by 1 July 2011, expenditure will be required on one-off establishment costs and for additional annual ongoing costs. Costings cannot be finalised until final decisions on the institutional design and location are made.

The development of a fully functioning EPA is a central component of the legislative and institutional reforms that I am intending to achieve in the environmental sector. I consider it is a key way this government will provide greater national leadership in the environmental sector, reduce red tape and enable New Zealand to more effectively, efficiently and transparently manage the regulation of its environment and natural and physical resources.

An expanded EPA will centralise a range of functions currently either not undertaken or undertaken by a range of agencies. Existing institutional arrangements have resulted in environmental regulation not being effectively, efficiently or transparently delivered. For instance there has been an implementation gap at the national level in the regulation of natural and physical resources, and national-level processing of consent-type applications under environmental regulations has been dispersed across different agencies. An expanded EPA will address such issues and will consolidate regulatory and technical skills, and build on synergies between similar functions and powers.

2.1.2 *Emissions Trading Scheme Implementation*

The Climate Change Response (Moderated Emissions Trading) Amendment Bill passed through its Parliamentary stages and received Royal Assent on 7 December 2009. The focus is now on ensuring effective operation of the scheme. Funding is needed in 2010/11 and 2011/12 for increased activity in this work area, being the administration and implementation of the ETS.

Implementation of the ETS is a central component of the framework to ensure that New Zealand does its fair share to address greenhouse gas emissions and climate change. The ETS will ensure that New Zealand meets its obligations under international agreements such as the Kyoto Protocol and its successors and that an appropriate balance is achieved between New Zealand's environmental and economic responsibilities.

Getting the ETS up and running is a major programme for the Government. Challenges include providing free allocation of emissions units to the most emissions-intensive, trade-exposed companies. Officials are seeking to implement industrial allocation to a timetable that gives industry certainty by July 2010. From 1 July 2010 the ETS will apply to the stationary energy, industrial processes and liquid fossil fuels sectors. From this date many energy producers (such as transport fuel producers and electricity generators) and some businesses undertaking industrial processes that lead to direct emissions of greenhouse gases (such as the production of iron or steel) will face obligations and a price on emissions. The ETS will apply to agriculture from 2015. There will be a transition phase for the next three years to ease the impact for businesses and consumers. In addition the provision of allocation will be done in a way that maintains incentives for firms to reduce emissions and improve their efficiency.

2.1.3 Filling Information Gaps for Decision-making

There is increasing recognition that New Zealand has hit environmental limits in some areas (for example, water allocation in dry provinces) or effects that are irreversible or costly to remedy (for example, water quality in some regions). Change will therefore be required in natural resource allocation decisions, at both the policy and consenting levels. To support this change the Ministry will need to ensure that a number of information gaps are filled. Priority gaps to be managed over a phased medium to long-term are:

- Land Cover Database 3 – The Ministry has the lead in providing this map series to ensure that land, water and biodiversity decisions by the Ministry, the Department of Conservation and local government have evidence-based support.
- Evaluation – The Ministry has a statutory requirement to evaluate the Waste Minimisation Act 2008 as well as a need to evaluate climate change policy and water policy effectiveness over the medium term. In addition forecasting and modelling capability will need to be strengthened.
- Water accounts – High quality stock and flow data for water is required to support allocation decisions. The current fundamental data sets are incomplete and infrequent. The Ministry will work with Statistics New Zealand to address these issues.
- Cost-benefit data – Cost-benefit and regulatory impact analysis in natural resource policy work is currently poorly supported with cost-benefit data. This needs to be improved to make it possible to weigh up competing resource allocation choices.

The Ministry needs complete high quality information to inform and support priority work including the Land and Water Forum and *New Start for Fresh Water*, the proposed 'State of our Waters' report scheduled for delivery in early 2011 and the 2012 State of the Environment Report. It is also a critical input to ensuring that decision-making across government achieves the careful balance I am seeking between environmental management and economic growth.

2.2 Ceased or Decreased Activity

2.2.1 Departmental Expenditure

As part of the previous Budget process the Ministry was instructed to undertake a baseline review to establish a sustainable funding path for upcoming years. Through this work it became clear that cost pressures in 2011/12 and beyond would need to be managed by focusing on priorities (in particular scaling large work programmes such as resource management reform and New Start for Freshwater to match the resources available), controlling lower priority commitments for 2009/10 and 2010/11 and reducing the use of external resources where possible.

To enable the Government to meet its priorities the Ministry must deliver effective policies and programmes. Work is underway to understand and provide the capability and skill mix required for the Ministry to deliver high quality advice into the future. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

With major new initiatives (EPA and ETS) becoming fully operational in 2011/12, the Ministry has identified savings through careful budget management in the current year. This has resulted in funding being available for transfer from 2009/10 into future years in order to deliver the new and increased activities of the Ministry with no additional fiscal cost. The following transfers are proposed:

- An expense transfer of \$3 million to 2010/11 (Vote Environment);
- A transfer of \$2.5 million related to timing changes with the Land Use and Carbon Analysis System (LUCAS) - this will be spread across future financial years and will resolve an expected shortfall in 2012/13;
- An in-principle expense transfer of up to \$8 million to 2010/11 (across Vote Environment and Vote Climate Change).

The in-principle transfer to 2010/11 relates to a number of areas where it is difficult at this stage to forecast costs, and to forecast the timing of the occurrence of those costs, with a high degree of certainty. This includes areas such as climate change policy following on from climate change negotiations in Copenhagen, new projects such as ETS and EPA, and the internal policy capability review. As the projects evolve a better understanding of the total costs will become apparent.

The establishment of the expanded EPA is a significant undertaking for the Ministry over the next few years.

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

I also note there are a number of minor technical changes that are included in this Baseline Alignment Proposal to align expenditure and revenue profiles.

2.2.2 *Non-departmental Expenditure*

The non-departmental expenditure part of Vote Environment will continue without change to the expected 2010/11 appropriations.

I note that the first phase of the clean-up of Tui mine is underway. It has provided a good assessment of what the total clean-up costs are likely to be. Of the funding appropriated for this clean-up, the remainder (\$5.3 million in 2009/10) will be insufficient to complete the second phase. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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Baseline Alignment Proposal - In Principle Expenditure Transfers

Vote: Environment	2009/10	2010/11	2011/12	2012/13	2013/14
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Total Proposed Baseline	195,441	123,238	116,314	114,314	108,014
Share Allocation	0	0	0	0	0
Centralised Savings	0	0	0	0	0
Reprioritisation					
Environmental Policy Advice	- 5,500	5,500			
Scoping study for Clean up fund	- 748	748			
Waikato River Clean up Fund	- 14,000	14,000			
Waikato River Co - Management	- 28,000	28,000			
Waikato River Initiatives Fund	- 40,000	40,000			
Aquaculture regional projects	- 700	700			
Contaminated Sites Remediation Fund - Rotowaro & Minginui	- 4,000	4,000			
Total Reprioritisation	- 92,948	92,948	0	0	0
Transfers Outside Vote	0	0	0	0	0
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	- 92,948	92,948	0	0	0
Total Proposed Baseline	102,493	216,186	116,314	114,314	108,014

Baseline Alignment Proposal - Other Technical Changes

Vote:	Environment	2009/10	2010/11	2011/12	2012/13	2013/14	2019/20	2020/21
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Total Proposed Baseline		102,493	216,186	116,314	114,314	108,014	N/A	N/A
Share Allocation		0	0	0	0	0	0	0
Centralised Savings		0	0	0	0	0	0	0
Reprioritisation								
Align Rotorua Lakes Restoration Programme with Deeds of settlement		0	0	- 5,000	- 3,000	0	5,000	3,000
Estimated Costs for RMA Call Ins (funded by Revenue Other)		1,000	3,150	3,150	3,150	3,150		
Estimated Costs of Applications to EPA(funded by Revenue Other)		2,000	12,950	12,950	12,950	12,950		
Total Reprioritisation		3,000	16,100	- 11,100	- 13,100	16,100	5,000	3,000
Transfers Outside Vote		0	0	0	0	0	0	0
Total Transfers Outside Vote		0	0	0	0	0	0	0
Total Changes		3000	16100	11,100	13,100	16100	5,000	3,000
Total Proposed Baseline		105,493	232,286	127,414	127,414	124,114	N/A	N/A

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Baseline Alignment Proposal - In Principle Expenditure Transfers

Vote: Climate Change	2009/10	2010/11	2011/12	2012/13	2013/14
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Total Proposed Baseline	64,269	560,841	451,165	1,092,156	842,048
Share Allocation	0	0	0	0	0
Centralised Savings	0	0	0	0	0
Reprioritisation					
LUCAS	- 600	600			
Climate Change policy advice	- 2,500	2,500			
Total Reprioritisation	- 3,100	3,100	0	0	0
Transfers Outside Vote	0	0	0	0	0
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	- 3,100	3,100	0	0	0
Total Proposed Baseline	61,169	563,941	451,165	1,092,156	842,048