

## Treasury Report: Bilateral Briefing Material - Climate Change

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<b>Date:</b>	9 March 2007	<b>Treasury Priority:</b>	Medium
<b>Security Level:</b>		<b>Report No:</b>	T2007/299

### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	<b>Read</b> the attached bilateral briefing and use it as a basis for making decisions in your bilateral with Hon David Parker.	Wednesday, 14 March 2007 at 8.00am
Associate Minister of Finance (Hon Trevor Mallard)	<b>Read</b> the attached bilateral briefing and use it as a basis for making decisions in your bilateral with Hon David Parker.	Wednesday, 14 March 2007 at 8.00am

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone	1st Contact
Joanne McGilchrist	Analyst, Climate Change, Energy & Commercial Operations	<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>	✓
Chris White	Manager, Climate Change, Energy & Commercial Operations		

**Enclosure:** Yes

## **Treasury Report: Bilateral Briefing Material - Climate Change**

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### **Executive Summary**

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Please find attached the following briefing material for your bilateral on Climate Change with Hon David Parker at 8.00 a.m. on Wednesday, 14 March 2007:

- T2007/206 – *Bilateral Briefing for Vote Climate Change & Energy Efficiency Capital Initiatives*
- *Aide Memoire – Climate Change/Sustainability Package Options for Budget 2007*
- An A3 spreadsheet with recommendations on each initiative
- A one page overview document that shows how each initiative fits with relevant government priorities in Climate Change/Sustainability

As requested by your office staff, we have provided copies of this briefing material to Hon Parker's office.

### **Recommended Action**

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We recommend that you **read** the attached material and use it as the basis for making decisions in your bilateral with Hon Parker at 8.00 a.m. on Wednesday, 14 March 2007.

#### **Chris White**

Manager, Climate Change, Energy & Commercial Operations  
for Secretary to the Treasury

#### **Hon Dr Michael Cullen**

Minister of Finance

## Treasury Report: Bilateral Briefing for Vote Climate Change & Energy Efficiency Capital Initiatives

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<b>Date:</b>	22 February 2007	<b>Treasury Priority:</b>	Medium
<b>Security Level:</b>		<b>Report No:</b>	T2007/206

### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	<b>Read</b> the attached bilateral briefing and use it as a basis for making decisions in your bilateral with Hon David Parker.	Tuesday, 27 February 2007 at 4.00pm
Associate Minister of Finance (Hon Trevor Mallard)	<b>Read</b> the attached bilateral briefing and use it as a basis for making decisions in your bilateral with Hon David Parker.	Tuesday, 27 February 2007 at 4.00pm

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone	1st Contact
Joanne McGilchrist	Analyst, Climate Change	<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>	✓
John Scott	Senior Analyst, Climate Change		

**Enclosure: Yes**

## **Treasury Report: Bilateral Briefing for Vote Climate Change & Energy Efficiency Capital Initiatives**

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Attached is a briefing for the bilateral between the Minister of Finance and Hon David Parker at 4.00 pm on Tuesday, 27 February 2007 to discuss Capital Initiatives in Vote Climate Change & Energy Efficiency. Associated operating funding for these initiatives is being considered within the Economic Transformation (ET) theme.

The bilateral briefing is structured as follows:

Recommendations	p. 3
Analysis of initiatives	p. 5
One-page initiative summaries	p. 9

We expect the key issue for discussion will be *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*. Treasury's view is that this should be declined.

### **Recommended Action**

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We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with Hon Parker at 4.00 p.m. on Tuesday, 27 February 2007.

**John Scott**  
for Secretary to the Treasury

**Hon Dr Michael Cullen**  
Minister of Finance

**VOTE CLIMATE CHANGE AND ENERGY EFFICIENCY**

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

**analysis p. 5**

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

	<b>\$million - increase/(decrease)</b>					
	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Operating (sought through ET theme)</b>						
Department seeks	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					
Treasury recommends	-	-	-	-	-	-
<b>Capital (sought in this bilateral)</b>						
Department seeks	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>					
Treasury recommends	-	-	-	-	-	

**b Moving the Public Sector Towards Carbon Neutrality**

**analysis p. 8**

- The Prime Minister's statement to Parliament on 13 February 2007 announced the Government's intention to move the public service towards carbon neutrality. This will be achieved in a phased process, with the first group of six departments to have carbon neutral plans in place by early 2008. Agencies will pursue emissions reductions in the first instance, and offset only those emissions which cannot be avoided cost-effectively.
- **Treasury recommends** that the capital component of this initiative is declined. The capital costs are based on funding an average of \$600,000 per agency for the 6 agencies in stage one and average of \$150,000 per agency for 2 years for the 28 agencies in stage two. It is not unrealistic to expect agencies to fund this small amount from their balance sheets.
- **MfE's view** is that some capital spending for stage 1 agencies is necessary for the successful and timely delivery of the Prime Minister's commitments. If meaningful reductions in greenhouse gas emissions are to be achieved, upfront capital investments in energy efficiency (heating, cooling and lighting systems) will be necessary.

	<b>\$million - increase/(decrease)</b>				
	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 &amp; Outyears</b>
<b>Operating (sought through ET theme)</b>					
Department seeks	-	1.200	6.357	0.267	(2.833)
Treasury recommends	-	1.200	6.357	(0.733)	(2.833)

<b>Capital (sought in this bilateral)</b>					
Department seeks	-	3.600	4.200	4.200	-
Treasury recommends	-	-	-	-	-

## Analysis of Initiatives

- Funding is being sought for Vote Climate Change and Energy Efficiency through this bilateral and also through the Economic Transformation theme. This is summarised in the table below:

	<b>\$million - increase/(decrease)</b>					
<b>Funding sought for Vote Climate Change and Energy Efficiency in Budget 2007</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Operating (GST excl)</b>						
At this bilateral	-	-	-	-	-	-
Through Economic Transformation Theme	-	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<b>TOTAL OPERATING</b>	-	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<b>Capital (GST excl)</b>						
At this bilateral	-	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
Through Economic Transformation Theme	-	-	-	-	-	-
<b>TOTAL CAPITAL</b>	-	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				

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

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

### **Treasury's Views**

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13. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
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**MED's Views:**

15. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].*
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## **Moving the Public Sector Towards Carbon Neutrality (recommendation b)**

22. The Prime Minister's statement to Parliament on 13 February 2007 announced the Government's intention to move the public service towards carbon neutrality. This will be achieved in a phased process, with the first group of six departments to have carbon neutral plans in place by early 2008. Agencies will pursue emissions reductions in the first instance, and offset only those emissions which cannot be avoided cost-effectively.
23. In this bilateral, \$12 million capital outlay is sought for easily-attained energy efficiency measures (e.g. energy efficient lighting) in all 34 core public service agencies.

### ***Treasury's Views:***

24. The initiative is based on a capital cost for the 6 agencies in stage one of an average \$600,000 per agency and capital costs for the 28 agencies in stage two of an average \$150,000 per agency for 2 years. We recommend that the capital component is declined as it is not unrealistic to expect agencies to fund this small amount from their balance sheets.
25. The operating component of this initiative is being considered in the context of the ET theme. Treasury is supporting the operating funding for the six agencies in stage one in full and is supporting funding the cost of the energy/emissions audit and the workplace travel plans for the remaining 28 agencies in stage two. Given the uncertainty that currently exists around the cost and timing of provisions to offset emissions, Treasury does not support funding any offsetting provisions for the remaining 28 agencies in 2009/10 at this stage.
26. Any funding that may be agreed for this initiative should be set aside as a tagged contingency item as there is significant uncertainty around costings and the policy still requires some development.

### ***MfE's Views:***

27. MfE considers that the short-term success of Stage 1 (and minimisation of the eventual cost of carbon offsets) relies on some 'seed' capital funding to accelerate emissions reductions for those agencies by making alterations to heating, cooling and lighting systems. Some of the Stage 1 agencies occupy multiple buildings and will face significant retrofitting costs. MfE considers it unrealistic to expect major sums to be diverted to sustainable capital expenditure purchases in the space of one year under current capital spending rules. This is particularly so, as Treasury is not supporting some areas of operational spending in the related Government Leadership in sustainable Procurement bid which would assist agencies to make greater savings in other areas.
28. If no capital funding is provided to the Stage 1 agencies, MfE considers the offsetting savings for the programme must be reduced. Savings have been calculated on the assumption that Stage 1 agencies will have accelerated uptake of new technologies and hence faster reductions in energy costs.

## One-page Initiative Summaries

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One-page summaries of the initiatives for discussion at this bilateral are attached on subsequent pages.

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

## AIDE MEMOIRE – CLIMATE CHANGE/SUSTAINABILITY PACKAGE OPTIONS FOR BUDGET 2007

### Background

The purpose of this Aide Memoire is to provide further (scaling up) options for a Climate Change/Sustainability package for Budget 2007.

Previous Treasury advice has focused on home energy efficiency & clean heating initiatives in Budget 2007 [T2007/157 refers]; and Capital initiatives in Vote Climate Change and Energy Efficiency [T2007/206 refers].

### Recommendations

If the government wished to allocate additional funding to climate change, we would recommend (in order of preference)<sup>1</sup>:

1. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
2. Additional funding for the Government Leadership in Sustainable Procurement initiative (\$200,000 for MfE to employ 2 new FTEs for the Govt3 programme and an additional \$300,000 for training and support).
3. NEW – There is a case for funding (\$350,000 in 2007/08, \$500,000 in 2008/09 and \$1m per annum thereafter) to engage on the international agricultural research work plan
4. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
5. Increased funding for the Warm Homes Programme initiative (fully scalable i.e. up to an additional \$22m over forecast period).
6. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
7. Additional funding for the Households sustainable living programme (set aside as a contingency)
8. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
9. Additional Funding for Business partnerships for sustainability (set aside as a contingency)
10. Ongoing operating funding for Auckland in the Public Space Recycling initiative.

We would not recommend any additional funding for the following initiatives:

- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- Home Energy Rating Scheme (possibly fund in Budget 2008)
- The Capital component of the Carbon Neutral Public Sector initiative
- Sustainable New Zealand – Supporting Government's Leadership Role
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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<sup>1</sup> Please note that no formal evaluative framework has been used to determine order of preference and as such, this should be used as a loose guide only

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

Further details and recommendations on each policy are provided in the A3 table accompanying this aide memoire.

### **June/July Decisions**

In addition to the initiatives included in Budget 2007, there will be a number of climate change related decisions in June/July. These relate to:

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

Even though the consultation process has not been completed around the sustainable land management work area, some possible areas of expenditure could be:

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

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice].*

**Chris White**  
Manager  
Climate Change, Energy & Commercial Operations

## Overview of How Each Initiative Fits with Government Priorities

	<i>Initiative</i>	<b>Currently being funded in themes</b>  <b>(\$m over forecast period)</b>	<b>Possible extra funding<sup>2</sup></b>  <b>(\$m over forecast period)</b>	<b>Treasury Recommended Order of Preference<sup>3</sup></b>
Energy Efficiency	EnergyWise Home Grants	9	–	N/A
	Warm Homes Programme	6	22	5
	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>			
	<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>			
	Home Energy Rating Scheme	–	55	Decline
Government Leadership	Sustainable Procurement	7	0.5	2
	Carbon Neutral Public Service	4	–	Decline further funding
	International Connections on Climate Change Research	–	3	3
	Household Sustainable Living	6	2	7
	Helping NZ Prepare for & Adapt to Climate Change	–	0.440	Decline
	Sustainable NZ – Supporting Govt's Leadership Role	–	3	Decline
	Business partnerships	3	1	9
	Public Space Recycling	0.650 [+ 0.5 capital]	2 [+ 1 capital]	10
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>				
<b>TOTAL</b>				

<sup>2</sup> Not necessarily supported by Treasury. See A3 spreadsheet for Treasury recommendations.

<sup>3</sup> Please note that no formal evaluative framework has been used to determine order of preference and as such, this should be used as a loose guide only

It is intended that Ministers work through this spreadsheet in the bilateral meeting, with the aim of populating the column on the far right hand side with funding decisions. Please note that no formal evaluative framework has been used to determine order of preference, and as such, this should be used as an indicative guide only.

## Operating Initiatives on Climate Change/Sustainability

Area of Government Interest	Title	Description	Departmental sought (\$ millions)				Current Treasury recommendation (\$ millions)				Scaling up option - New Treasury Recommendation	Bilateral Decision (\$ millions)			
			2007/08	2008/09	2009/10	2010/11	2007/08	2008/09	2009/10	2010/11		2007/08	2008/09	2009/10	2010/11
Energy Efficiency	EnergyWise Home Grants	EnergyWise home grants provides funding to install energy efficiency measures in pre-1977, uninsulated, low income households.	1.400	1.600	1.900	3.900	1.400	1.600	1.900	3.900	Already fully funded	N/A			
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Government Leadership	Government Leadership in Sustainable Procurement	Reduce known barriers to sustainable procurement by government agencies to help deliver both direct environmental benefits in a cost-effective way and improved market opportunities for New Zealand sustainable businesses.	4.600	4.200	3.350	3.175	2.600	2.000	1.400	1.400	<b>Priority 2:</b> Could be scaled up by \$500,000 per annum to allow MfE to recruit 2 new FTEs and to allow for training and support				
Government Leadership	Climate Change Research - International connections	There is a case for funding to engage on the international agricultural research work plan.	0.350	0.700	1.000	1.000					<b>Priority 3:</b> Treasury sees the need for more work in this area. (\$3m over forecast period)				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Energy Efficiency	Warm Homes Programme	Assist in the installation of clean and efficient heating – improving air quality, improving health, and reducing greenhouse gas emissions by establishing a Vote Environment component to Energy Wise.	4.200	7.950	7.950	7.950	1.500	1.500	1.500	1.500	<b>Priority 5:</b> Could be scaled up to full amount requested by department (up to an additional \$22m over forecast period)				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Government Leadership	Households sustainable living programme	Overarching sustainability communications programme across related govt programmes with a specific focus on the household sector, focusing on where to go and what to do with a goal of effecting behaviour change. Covers carbon footprint, energy use, transport, construction, waste, water, land use	3.000	4.000	3.000	-	2.000	2.000	2.000	-	<b>Priority 7:</b> Further funding could be set aside as a contingency				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Government Leadership	Business partnerships for sustainability	Accelerating NZ's transformation to a sustainable economy by aligning benefits & addressing barriers to sustainable business development.	2.050	2.300	2.300	2.300	1.000	1.000	1.000	-	<b>Priority 9:</b> Further funding could be set aside as a contingency (Up to Xm)				
Government Leadership	Public Space Recycling	To partner with local government to construct a nationally consistent network of public space recycling bins located throughout New Zealand.	0.650	0.965	1.295	-	0.650	-	-	-	<b>Priority 10:</b> Funding for one year in Auckland is supported. There may be scope to increase funding for this initiative.				
Government Leadership	Moving the Public Sector Towards Carbon Neutrality	Agencies will pursue emissions reductions in the first instance, and offset only those emissions which cannot be avoided cost-effectively.	1.200	6.357	0.267	(2.833)	1.200	6.357	(0.733)	(2.833)	<b>Do not recommend</b> funding this at a greater level than already indicated.				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Energy Efficiency	Home Energy Rating Scheme - Operating	Implement a national home energy rating scheme to provide homeowners with a star rating of the energy efficiency of their house, and advice for improvement. Ratings would be available from 2007/08, and it could become mandatory to disclose ratings on sale or lease from Dec 2008.	4.800	12.500	18.900	18.900	-	-	-	-	<b>Defer</b> to Budget 2008. Cabinet agreed funding in Budget 2006 to set up a pilot scheme and directed MfE to report back before seeking funding in Budget 2008. No pilot scheme has been set up yet.				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Government Leadership	Sustainable New Zealand - Supporting Government's Leadership Role	The Sustainable New Zealand initiative comprises two key components: 1. Monitoring progress towards sustainability (Indicators and Targets) 2. Auckland Urban Development.	0.100	0.850	0.850	0.850	-	-	-	-	<b>Decline</b> - Ministry staff numbers have more than doubled since 2000. There should be sufficient capability within the Ministry to progress these issues				
<b>Total Initiatives</b>			<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>												

## Capital Initiatives on Climate Change/Sustainability

Area of Government Interest	Title	Description	Departmental sought (\$ millions)				Current Treasury recommendation (\$ millions)				Scaling up options - New Treasury Recommendation	Bilateral Decision (\$ millions)			
			2007/08	2008/09	2009/10	2010/11	2007/08	2008/09	2009/10	2010/11		2007/08	2008/09	2009/10	2010/11
Government Leadership	Public Space Recycling	Partnership with local government to construct a nationally consistent network of public space recycling bins located throughout New Zealand.	0.500	0.525	0.550	-	0.500	-	-	-	<b>Priority 7:</b> Funding for one year in Auckland is supported. There may be scope to increase funding for this initiative by up to \$1.075m.				
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>															
Government Leadership	Moving the Public Sector Towards Carbon Neutrality - Capital Component	Agencies will pursue emissions reductions in the first instance, and offset only those emissions which cannot be avoided cost-effectively.	3.600	4.200	4.200	-	-	-	-	-	<b>Decline</b> capital - each agency should fund from balance sheet in first instance. If an agency makes a strong case for extra capital, they may request funding between Budgets				
<b>Total Initiatives</b>			<i>[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]</i>												