

The Treasury

Budget 2021 Information Release

August 2021

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Treasury Report: Budget 2021 Climate Package and Broader Climate Policy Context

Date:	12 March 2021	Report No:	T2021/387
		File Number:	SH-10

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Discuss the contents of this report with the Climate Budget Ministers at your multilateral on Tuesday 16 March 2021.	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Caitlin Daugherty-Kelly	Senior Analyst, Transitions, Regions, and Economic Development	[39]	[35] ✓
Udayan Mukherjee	Team Leader, Transitions, Regions, and Economic Development		N/A (mob)

Minister's Office actions (if required)

Return the signed report to Treasury.
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Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Budget 2021 Climate Package and Broader Climate Policy Context

Executive Summary

You are meeting with Climate Ministers on 16 March to discuss their priorities for funding climate change initiatives in Budget 2021. While Budget 2021 provides an opportunity to make foundational investment towards the Government's long-term emissions reduction targets, it will not be sufficient. The Emissions Trading Scheme (ETS) will continue to be a key lever for meeting these targets, and will need to be supplemented by further public investment in future Budgets.

The Climate Change Commission's (CCC) draft report, released January 31, has laid out a range of recommendations to underpin a proposed Emissions Reductions Plan (ERP). After this advice is finalised in May 2021, the Government will have further opportunities to signal its commitment to invest in the actions required to deliver on its Emissions Reduction Plan, due by the end of 2021.

As a result, the Treasury has recommended that Budget 2021 prioritise investment-ready initiatives which contribute to achieving the greatest short-term emissions reductions at the least fiscal and economic cost; unlocking future emissions in hard-to-abate sectors; and building on the existing emissions-reduction landscape and broader Government objectives.

A number of the initiatives submitted in Budget 2021 are consistent with the long-term strategy proposed by the CCC, but require considerable further policy development. Therefore, providing additional funding now for the initiatives submitted in their current form may not decrease emissions in the short to medium term.

[33]

Recommended Action

We recommend that you:

- a. **note** that the Treasury's 'high' package provides scaled funding of \$92.9 million operating average per annum and \$335.8 million capital funding total for initiatives in the climate sub-package, with a full list of initiatives and Treasury assessments provided in Annex One;
- b. **note** that this climate package should be seen as a foundational investment for emissions reductions, which will require further funding in future budgets;

[33]

- d. **note** that Annex Two provides you with a series of talking points on the Budget 2021 package and Climate Change Commission's advice, that you may wish to draw on in the multilateral;
- e. **note** that you have received accompanying advice on the transport portfolio's strategic priorities and Budget 2021 initiatives to support the Climate Budget 2021 Multilateral (T2021/510 refers) and these reports, and talking points, should be read together;

[40]

Udayan Mukherjee
Team Leader, Transitions, Regions and Economic Development

Hon Grant Robertson
Minister of Finance

Treasury Report: B21 Package Advice Ahead of the Climate Multilateral

Outline of Report and Next Steps

1. This report provides you with a contextualised overview of the Treasury's recommended climate sub-package, to support you at the Climate Ministers' Multilateral on March 16.
 - a. The first section of this report summarises the Treasury's assessment of the Budget 2021 climate package. It provides an overview of the package as a whole, as well as more detailed information on our assessment of several significant initiatives. A complete list of submitted Budget 2021 climate initiatives and Treasury assessment is included in Annex One.

[40]

2. Following this Budget Multilateral meeting, the Prime Minister's Climate Response Ministerial Group will meet on the 23 March. We understand that the agenda for this meeting may include a further discussion of actions and significant proposals arising from the CCC report. We will provide you with separate advice ahead of this meeting.
3. You will meet with Budget Ministers on 29 March, to discuss the near final Budget 2021 package. The Treasury will amend as required the package to reflect decisions taken between now and Budget Ministers Three.

Budget 2021 Climate Sub-Package Overview

4. You met with Treasury officials on 9 March to discuss the Budget 2021 package. Following on from this meeting, the assessment in this report refers to the Treasury's 'high' package (the package).
5. The table below provides you with an overview of funding requested for the climate initiatives, and amounts currently included in the package. A full list of initiatives submitted for consideration as part of the climate sub-package can be found in Annex One.

Table 1: Summary of Treasury Recommended Climate Package for Budget 2021

Vote	Submitted (\$m)		Included in the Treasury's Package (\$m)	
	Opex 4yr Annual Average	Capex Total (\$m)	Opex 4 yr Annual Average	Capex Total
Environment	[33]		7.573	300
Agriculture			15.304	-
Transport			10.128	16.220
Business, Science and Innovation			59.901	19.593
Total			92.906	335.813

6. This package will support the Government to make progress on its emissions targets, whilst balancing funding across priorities and within allowances. [34]

7. [34]

8. We recommend prioritising investment-ready initiatives that, in line with your letter to your Ministerial colleagues, contribute to:
 - a. the greatest short-term emissions reductions at the least fiscal and economic cost;
 - b. starting action that can unlock future emissions reductions in hard-to-abate sectors;
 - c. delivering on the Government's wider economic and social objectives; and
 - d. taking account of the Emissions Trading Scheme and other emissions pricing, non-spending regulatory options, and distributional impacts.
9. Below is further information on the approach that the Treasury has taken for several significant initiatives submitted for inclusion in the climate sub-package:
 - a. **Reducing emissions through the Transport Climate Package.** We have scaled this initiative to provide funding for the Clean Car Standard component only. The transport package generally aligns thematically with the CCC's ambitious recommendations. However, we recommend investment in the Transport climate package focuses on investment-ready initiatives that are of the least fiscal and economic cost, with the greatest short-term impact on emissions reductions. This means delaying decisions on the majority of the package to enable the completion of further policy work, and to allow for decision-making in the strategic context provided by upcoming deliverables, including the Transport Emissions Action Plan. You are receiving an accompanying Treasury Report on the Transport package ahead of the 16 March 2021 multilateral (T2021/510 refers).
 - b. **Delivering New Zealand's Low-Carbon Future and Adapting to Climate Change.** We have scaled funding for this departmental cost pressure, which primarily seeks departmental funding for the Ministry for the Environment (MfE). MfE's mandate has broadened and the agency is under increasing pressure. However, there are choices around resource-use and funding prioritisation. Since Budget 2017, FTE funding for MfE has increased from 349.1 FTE to a forecasted 636.3 FTE by June 2021, with around 70 FTE positions vacant as at February 2021. Across the entire Budget 2021 package, MfE is seeking funding to recruit and retain 150 FTE total. The Treasury is supporting funding for around 90 FTE.¹ Our recommended funding amount of this specific initiative contributes funding for around 20 FTE.

¹ Of this around 60 FTE are for the Resource Management Reforms and 10 are for the implementation of the Environmental Monitoring and Reporting System. Approximately 30 FTE of this combined 70 FTE are existing staff, who would be retained through the funding recommended by Treasury. You received our assessments of these initiatives, "Designing, Delivering and Implementing Comprehensive and Sustainable Reform of the Resource Management System" and "Establishing an Enduring Environment Monitoring and Reporting System" ahead of your 9 March meeting with Treasury officials (T2020/359 refers).

c. **Recapitalising New Zealand Green Investment Finance Ltd (NZGIF).** We have scaled funding for this initiative, supporting \$200 million funding in 2021/22, with a further \$100 million placed in contingency for 2022/23. This approach will help maintain climate investment momentum, without limiting funding options to scale up funding for climate investment institutions in the future.

d. [33]

e.

10. [33]

a. [33]

b.

11. [33]

12.

Overview of Climate Change Chief Executives Climate Package

13. As requested by the Prime Minister and the Minister for Climate Change, MfE, the Ministry of Business, Innovation and Employment (MBIE), the Ministry for Primary Industries and the Ministry of Transport (the agencies) have been assessing in parallel the coherency and sufficiency of all submitted climate initiatives in meeting the recommendations of the CCC's draft report. The agencies have produced a joint-memo under the oversight of the Climate Change Chief Executives Board, which will be shared with you ahead of the March 16 multilateral meeting.

14. [34]

15.

16. At the direction of the Climate Change Chief Executives Board, the agencies have also:

- a. ranked initiatives in order of priority; and
- b. identified gaps across the full suite of initiatives, and highlighted areas for potential funding beyond Budget 2021.

17. The following sections provide an overview of key differences between the Treasury's and the agencies prioritisation of initiatives, and the Treasury's initial response to the gaps agencies have identified.

18. [33]

The agencies have also treated the components of the Transport package as 7 separate initiatives. The combined impact of this has been a reduction in the amount of funding they assessed from what was submitted for inclusion in the sub-package, but an increase in the number of initiatives.

Prioritisation of Initiatives

19. The agencies ranked initiatives based on a qualitative assessment of their alignment to the CCC's draft recommendations, potential to deliver real emissions reductions, and alignment to manifesto commitments.

20. [34,33]

21.

22.

a. [34,33]

b.

c. [34,33]

[34,33]

23. [34,33]

a. [34,33]

b.

c.

d.

e.

f.

24. [34,33]

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[40]

[40]

52. [33]

a. [33]

b.

c.

53. [33]

[33]

Annex One: Complete List of Climate Initiatives Submitted Through Budget 2021

Initiatives Included in the Treasury's Draft 'High' Package										
Initiative ID	Priority Area	Vote	Title	VA Comment	Department (\$m)		Vote Analyst (\$m)		TSY Draft Package (\$m)	
					Opex Total	Capex Total	Opex Total	Capex Total	Opex Total	Capex Total
13076	Manifesto Commitment	Business, Science and Innovation	Expanding the scope and size of funding for low emission transport technologies and fuels	This initiative will be an expansion in the size and scope of the Low Emissions Vehicle Contestable fund and will rename the fund to the 'Low Emissions Transport Fund' which will deliver both demonstration projects and wider diffusion of low emissions technologies in the transport sector. In our view there is a need to broaden and increase the current fund to support decarbonisation of the wider transport system. Treasury support this initiative in full, funding will be used to expand and optimise the public electric vehicle charging network, and will enable the demonstration of innovative transport technology and business models to reduce transport emissions, and co-funding to support the purchase of commercially-available low emission vehicles to accelerate uptake.	41.360	-	41.360	-	41.360	-
13077	Manifesto Commitment	Business, Science and Innovation	Scaling up EECA's energy and decarbonisation support for business	This initiative seeks to expand EECA's existing business programme of providing technical and advisory support to businesses to overcome the barriers they face to identifying and implementing energy efficiency and fuel switching renewable energy projects. The initiative has good low cost short term emissions reduction potential, with most projects expected to deliver emissions savings at a cost lower than the current Emissions Trading Scheme price. There are various options to scale this initiative by either increasing or reducing funding. We would not recommend scaling down funding, given the high priority alignment, strong value for money and implementation readiness of the initiative.	14.000	-	14.000	-	14.000	-
13078	Manifesto Commitment	Business, Science and Innovation	Extending the Warmer Kiwi Homes programme	Warmer Kiwi Homes assists low-income households by contributing to the cost of insulation/heating retrofits. The recommended option meets the programme's need for \$47.662 m extra funding and extends the programme for a further year until June 2023. This initiative is time-sensitive, as funding for the programme will be depleted by September 2021 and it will be unable to continue until its intended end date of June 2022. Scaling to only meet funding for the current programme means that the programme would end in June 2022. This would leave a significant number of houses under-insulated or unsafely heated and affect the job security of service providers. A study of the impacts of the programme is expected by February 2022.	[33]	-	120.092	-	120.092	-
13088	Manifesto Commitment	Business, Science and Innovation	Expanding our Just Transition support for communities facing transitions	The Treasury supports this initiative in full. It has a substantial focus on Southland in anticipation of the closure of the Tiwai Point smelter. The Labour Party manifesto includes a commitment to "significantly expand the Just Transitions unit with an additional \$5 million per year, to enable us to support regions beyond Taranaki as they navigate the transition to a low emissions future." Since that commitment, a deal has been reached between Meridian and Rio Tinto for the Tiwai smelter to remain open for another four years. However, the Treasury's view is that substantial Just Transition work remains valuable in anticipation of the smelter's closure in 2024.	[33]		19.962	0.038	13.924	0.038

13089	Cost Pressure	Business, Science and Innovation	Implementing the Carbon Neutral Government Programme	<p>The Treasury supports scaled departmental funding across the forecast period, so agencies can begin work for emissions reporting, planning and publishing to meet the CNGP deadlines. This also signals commitment to the programme, which will encourage agencies to invest in their work on the programme. Scaling reflects the availability of existing resourcing within departments.</p> <p>The operating component also includes funding to support agencies to lease Electric Vehicles; Treasury recommends funding in full for the first year only, for the reasons outlined in the capital component below.</p>	[33]		50.228	19.555	50.228	19.555
13192	Manifesto Commitment	Agriculture, Biosecurity, Fisheries and Food Safety	Accelerating the delivery of a national integrated farm planning system to New Zealand's farmers and growers	<p>This initiative aligns with Government priorities, especially by supporting mental wellbeing and a just transition. The key outcome is to get better advice to farmers so that they can more effectively plan and produce better agricultural data. It will incentivise people to become farm advisors by contributing to the salaries of [33] new advisors [33] and co-fund initiatives that connect advisors to farmers [33] through an Accelerator Fund. MPI will develop tools for advisors [33] and improve the integrated farm planning framework and monitor the programme [33]</p> <p>Supporting slightly fewer advisors or decreasing the fund would not prevent achieving the key outcome. We recommend only 100 new advisors be supported (\$11.2m), and that the Accelerator Fund only be \$16.2m.</p>	[33]	-	37.215	-	37.215	-
13193	Manifesto Commitment	Agriculture, Biosecurity, Fisheries and Food Safety	Accelerating agricultural climate change research and on-farm emissions mitigation	<p>This initiative aligns strongly with securing a just transition. Agricultural emissions make up almost 50% of New Zealand's total emissions. Technology has the potential to substantively reduce this contribution, but there are limited tools currently available. There is urgency to research reliable and cost effective mitigation practices and technologies so that they are available in time to enable New Zealand to meet our emissions targets. [38]</p>	[33]					-
13326	Cost Pressure	Environment	Recapitalising New Zealand Green Investment Finance Ltd	<p>A smaller recapitalisation of \$300m, spread over two budget years (\$100m in 22/23 is contingent on capital deployment progress), is recommended for the following reasons: - Maintaining climate investment momentum by preserving credibility and certainty of GIF's place in the investment market. \$200m is assessed as a minimum amount to achieve this objective in B21. - Providing enough funding for GIF to credibly continue investment operations while also maintaining the optionality to scale up climate investment once further scoping work on wider climate financing is completed in 2021. - Allocating \$100m as contingent capital funding in 22/23, unlocked based on pace of investment and pipeline metrics, creates appropriate incentive mechanisms.</p>	[33]		-	300.000	-	300.000
13336	Manifesto Commitment	Transport	Reducing emissions through the Transport Climate Package	<p>Addressing transport emissions reduction is complex and requires a strategic approach with multiple levers. Ministers have options and discretion as to how initiatives are funded and when funding should be provided, noting that the ETS provides a weak signal. The key decision is how quickly Ministers want to move on transport emissions, given emissions are rising in this sector, and how Ministers want to signal their intentions in regards to future budgets and the TEAP, ERP and Climate Change Commission's final report, which will all be critical for informing the outcomes sought, prioritisation, and sequencing (all expected mid-to-late 2021). The CCC targets to decarbonise the light vehicle fleet are ambitious and would lead to the quickest uptake of EVs across the world.</p>	[33]		40.511	16.220	40.511	16.220

13343	Cost Pressure	Environment	Delivering New Zealand's low-carbon future and adapting to climate change	Support scaled. This initiative seeks funding for a range of work programmes across the MfE, with a focus on FTE (51 FTE sought), as well as contractors and consultants. MfE's mandate has broadened and the agency is under increasing pressure. However, there are choices around how resources are used and funding is prioritised, especially in light of the agency's recent and substantial increase in FTE (around 280 from 2017-2021 years) and existing vacancies (around 70). Further, the bid fails to consistently clarify how funding sought will build on existing funding/the additionality of this investment, and in some cases funding is sought for activities that appear to be BAU. Additionally, at \$240k per FTE, the FTE cost is extremely high, and there may be further options for scaling.	[33]		19.710	-	19.710	-
13346	Cost Pressure	Environment	Funding for the Climate Change Commission to support Aotearoa to respond to the Climate Emergency	Support scaled. The CCC's current baseline is insufficient for the breadth of work the organisation does, and the way in which it must operate under Te Tiriti. However, the bid seeks to almost double both baselines and FTE, yet does not clearly articulate why this is necessary and how this will build on existing resourcing. The bid also seeks funding for programmes that appear to be part of BAU/are not time sensitive. Funding has been scaled to prioritise those components which are time sensitive, implementation ready and foundational to the organisation's key deliverables.	[33]		9.582	-	9.582	-

[33]

Initiatives Not Supported in the Treasury's Draft 'High' Package

Initiative ID	Priority Area	Vote	Title	VA Comment	Department (\$m)		Vote Analyst (\$m)		TSY Draft Package (\$m)	
					Opex Total	Capex Total	Opex Total	Capex Total	Opex Total	Capex Total
[33]							-	-	-	-
[33]										

Annex Two: Talking Points for the March 16 Climate Multilateral

Below are some talking points you may wish to raise with your Ministerial colleagues at the multilateral, alongside the transport-specific talking points provided to you in the Budget 2021 Bilateral - Transport Portfolio Treasury report (T2021/510).

Treasury's Budget 2021 Climate Sub-Package

- Whilst I understand that further investment will be required in order to meet our climate targets, I consider that Budget 2021 offers us a critical first step.
- However, allowances are heavily oversubscribed and prioritisation within and across areas will be important for ensuring that we are able to make progress on our housing, child poverty reduction, and climate goals, whilst remaining within allowances.
- What, therefore, are the highest priority initiatives you have submitted for inclusion in the Budget 2021 package?
- What level of confidence do you have that the submitted initiatives are implementation-ready?
- How do you see these initiatives building on the Government's wider climate investment and complimenting other emission reductions levers, such as the ETS?
- What consideration have you given to phasing and sequencing investment across the Government's term, especially in the transport space?

Climate Change Chief Executives' Climate Package

- [34]

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Preliminary Views on the CCC's Advice

- The CCC's advice includes recommendations across sectors, as well as significant recommendations regarding ETS price caps, increases to the NDC, and changes to the role of forestry in achieving emissions reductions.
- I am interested in understanding any preliminary views that you have on the advice and its feasibility, including how we could meaningfully develop policies to support it?