

# The Treasury

## Budget 2024 Information Release

### September 2024

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## **Budget 2024 Multilateral: Hon Penny Simmonds, Minister for the Environment; Hon Chris Bishop, Minister for RMA Reform; Hon Simon Watts, Minister of Climate Change**

### **Proposed Agenda**

- **Item One:** Targeted Savings - Waste Disposal Levy
- **Item Two:** Baseline Savings – Waste Minimisation
- **Item Three:** Resource Management Reforms – Replacement
- **Item Four:** Resource Management – Report back on 2023/24 funding
- **Item Five:** Review of Climate Emergency Response Fund Initiatives

### **Budget 2024 Package - General Information**

- Following agency submissions for Budget 2024, both operating and capital demands are significantly higher than the funding available.
- This ambition for new spending will not be achievable from both a fiscal and delivery perspective.
- We therefore recommend you emphasise to Ministers that it will be necessary for them to consider what the Government does at this Budget versus future Budgets.
- We also recommend that you continue to push Ministers on where further savings could be realised, particularly with regards to stopping funds and programmes not aligned with your priorities or addressing back office and contractor and consultant growth.
- Finally, we recommend that – where appropriate – you re-emphasise that you are taking a stricter approach to out-of-cycle requests for funding ahead of Budget 2024, to ensure that the Government can assess the relative benefits of proposals across the full Budget package.

### **Vote Environment Summary**

- **Item One:** The Treasury supports changes to hypothecation settings for the Waste Disposal Levy, recommending a full return of the central government portion, <sup>[33]</sup>. We recommend you discuss the risks and trade-offs of these options, as well as the alternatives, with Minister Simmonds, Minister Bishop and Minister Watts.
- **Item Two:** The Ministry for the Environment (MfE) submitted sufficient options to meet the \$49.1 million baseline reduction target. However, on assessment, we consider that one initiative (ID 15592 – Waste Minimisation) does not provide credible savings due to a reliance on using levy revenue (set out in MfE’s preferred Waste Disposal Levy targeted savings option) to backfill areas proposed for baseline savings. We have provided options to make up the savings shortfall and recommend that you ask Ministers to direct their officials to provide detailed costings for agreed options to the Treasury within three days of this meeting.
- **Item Three:** The Treasury supports a scaled option for the Resource Management new spending initiative, which may prompt a prioritisation of the work programme to improve

the deliverability of reforms across the current Parliamentary term. We recommend discussing with Minister Bishop the trade-offs associated with the scaled option.

- **Item Four:** As part of the Mini Budget, MfE was required to report back on remaining funding for resource management reform in 2023/24 for consideration as savings through Budget 2024. We have provided options on a process for achieving savings and recommend that you agree an approach with Minister Simmonds and Minister Bishop in the meeting.
- **Item Five:** Treasury has conducted a rapid review of all CERF initiatives to consider opportunities for further savings at Budget 2024. We have identified several initiatives for MfE that you may want to seek clarification on from Ministers in regard to savings.

### Item One: Targeted Savings - Waste Disposal Levy

#### 15595 – Environment Targeted Savings – Waste Disposal Levy

Title	Draft package	Treasury recommendation and Comment	
	Total Operating (\$m)		
15595 - Environment Targeted Savings - Waste Disposal Levy	(539.967)	Support	We support an option to return the full amount of central government levy revenue to the centre (less administration and compliance, monitoring and enforcement costs), as well as 10 percent of local government levy revenue. We estimate this would generate \$539.967 million over the forecast period based on current agency forecasts. MfE has advised that de-hypothecation will convert the levy into a tax. This initiative requires extensive legislative amendment to the Waste Minimisation Act 2008 that would need to be delivered under urgency to realise savings for 2024/25.

1. The purpose of the Waste Disposal Levy (the levy) is to raise revenue for promoting and achieving waste minimisation, and to increase the cost of waste disposal to recognise that disposal imposes costs on the environment, society, and the economy.
2. Levy revenue is forecast to rise significantly following a decision by the previous Government to expand and increase levy rates from 2021 (Table 1). The Waste Minimisation Act 2008 (the Act) stipulates that waste levy revenue is hypothecated for activities that promote or achieve waste minimisation. This revenue is allocated 50/50 between central and local government.<sup>1</sup> Central government revenue is allocated to the Contestable Waste Minimisation Fund (the WMF) and covers administration costs for operating the waste levy and the WMF.

*Table 1: Forecast Waste Disposal Levy Revenue*

\$ millions – MBU 2024 (subject to confirmation)	2023/24	2024/25	2025/26	2026/27	2027/28
Waste Disposal Levy Revenue	210.000	257.118	255.008	250.601	243.399

3. The Treasury’s general preference is to minimise the use of hypothecation to maximise the ability to prioritise funding towards the highest value expenditure. In the case of the

<sup>1</sup> The local government portion is disbursed to councils based on population size.

waste levy, the Treasury has concerns with the value for money of investments funded by levy revenue. In particular, the:

- absence of a Cabinet agreed investment strategy for the WMF (due partly to current legislative design),
  - lack of clear accountability around funding decisions relative to other government investment processes, and
  - regular underspends in the WMF, indicating a funding pool that is disproportionate to the number of worthwhile investments and/or that the market has limited ability to deliver these projects.
4. For Budget 2024, MfE submitted a range of savings options for both the central and local government portions. We have detailed these options and associated risks below.

#### Central Government Allocation – the Waste Minimisation Fund

5. Ministers have options to alter the hypothecation settings for the WMF, returning anywhere from 5 to 100 percent of the levy revenue back to the Crown (Table 2).

*Table 2: Savings options for central government portion*

Central government portion <sup>2</sup>	Total OPEX (\$m)
Expand the scope of the levy to fund a wider set of waste activities (MfE preferred)	(101.830)
Return 20%	(97.993)
Return 50%	(244.983)
Return 100% (Treasury recommended)	(489.967)

6. We recommend a full return of the central government portion of levy revenue (ie, the WMF), which would enable the Government to direct levy revenue towards higher value expenditure. This will effectively convert the levy to a tax and would require urgent legislative change to amend the Waste Minimisation Act 2008 to realise savings in 2024/25. Legislative change is required for all options.
7. Ministers would need to consider the future direction of waste policy, including options for achieving outcomes under the Waste Minimisation Act, as a full return would result in the effective closure of the WMF.<sup>3</sup> These options could include inviting Minister Simmonds to submit waste proposals for consideration in future Budgets. Any investment in waste should entail a robust assessment process to align with the Government’s priority areas for waste expenditure.

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<sup>2</sup> Note the costs for continued administration of the levy and compliance, monitoring and enforcement have been excluded from the totals above. This funding needs to be retained to ensure continued functioning of the levy and the collection of levy revenue.

<sup>3</sup> This would likely not be until 2025/26, as some funding has been contractually committed for 2024/25.

## Central government risks

8. There have been several concerns raised by MfE, including legal risks (Table 3 below). In particular, officials have identified the need for legislative change to enable the Central Government portion of the levy revenue to be de-hypothecated. Completing the required legislative process to enable enactment of the Bill before 1 July 2024 is likely to be challenging and therefore there are risks as to whether the proposed savings will be available for the 2024/25 financial year.
9. To enact this bill by 1 July, prioritisation of efforts within MfE's work programme may be required. We advise that you discuss this with Minister Simmonds and suggest that further advice is sought from MfE officials, in consultation with Parliamentary Counsel Office, on any risks associated with drafting complex legislation under compressed timeframes and achieving enactment by 1 July 2024.

*Table 3: Risks associated with central government savings*

Risks (as presented by MfE)	Comment
Conversion of the waste levy to a tax.	The return of all central government waste levy revenue to the centre effectively converts the levy to a tax, as this funding will no longer be ringfenced for spending on waste minimisation activities. The Government can convert a levy to a tax through legislative change, although there may be policy and legislative implications that would need to be worked through. Additional advice from MfE officials will be required on this.
Loss of social licence due to waste levy revenue being redirected towards general Crown accounts.	We consider social license risks are partially mitigated as the levy will continue to be levied on waste disposed of at landfills and the levy rate will not be subject to further increases (beyond those already signalled in 2021). The public would continue to pay the same amount for waste disposal costs as under the status quo settings, so the impact on households and individuals is expected to be minimal.
Climate litigation risk - there may be viable available avenues of legal challenge based on the climate implications of the changes.	The levy does not have an explicit emissions reduction purpose, but it funds waste minimisation investments derived from the waste chapter in the first emissions reduction plan, so its use and allocation have emissions abatement impacts. We are not yet in a position to model those impacts to assess legal risks here.
<p>Legislative complexity &amp; timeframes</p> <p>A bill to amend the Waste Minimisation Act would be required to realise savings. Such a bill would likely be between 30 to 50 clauses long and moderately complex. The amendment bill may also have to amend regulations already made under the Act.</p> <p>A standard process would mean allowing for three months' drafting time between Cabinet policy decisions and introduction. There is already a proposed Waste Minimisation (Waste Disposal</p>	<p>To realise savings for 2024/25, legislative change would need to be progressed at pace and enacted prior to 1 July 2024. The potential complexity of the changes that may be required, the short time period available to draft the Bill, and the number of sitting days available may make enacting the Bill before 1 July challenging.</p> <p>We suggest that further advice be sought from MfE in consultation with Parliamentary Counsel Office about the timing for any Bill.</p>

<p>Levy) Bill which had been expected to be small and moderately complex. Subject to the scope of the final proposal, the size and complexity of the Bill may mean that the current estimated timeframes are not appropriate for the new proposals.</p>	
<p>Reduced ability to address the waste infrastructure deficit and achieve waste minimisation objectives.</p>	<p>Policy direction for waste minimisation would need to be re-considered. Waste infrastructure could be considered as part of the approach to City or Regional deals, the Regional Infrastructure Fund or through the fast-track consenting pathway under proposed standalone legislation (for industry or joint industry-Crown investments). We recommend discussing these options with the relevant portfolio Ministers.</p>
<p>Reduced ability to address biogenic methane emissions from waste.</p>	<p>We note the climate impacts of these savings should be considered and assessed at an aggregate level across the next draft Budget 2024 package and that waste sub-sector targets should form part of Ministerial discussions on the second emissions reduction plan.</p>
<p>Reduced funding to respond to waste related emergencies.</p>	<p>We consider that responses to waste-related emergencies should be consistent with the Crown's role in wider response and recovery settings and that other agencies (such as National Emergency Management Agency) may be better placed to support this function.</p>

[33]

Expansion of the waste levy scope – (Vote Environment portfolio Ministers preferred approach)

15. We anticipate that Ministers may raise their preferred savings option for the levy, which we do not support. It proposes to expand the scope of the waste levy to allow levy revenue to fund waste-related activities that are currently funded by the Crown, such as the waste policy and data work programme. This frees up the Crown funding thus generating savings. However, the funding this initiative proposes for savings are duplicative of the savings submitted in initiative 15592 – Environment Baseline Savings - Waste Minimisation. This means this proposal will not generate the quantum of targeted policy savings in the proposed option.
16. The initiative also proposes that additional levy revenue could fund new functions, such as waste-related civil emergencies <sup>[33]</sup> ) or expanded functions such as



the cleanup of historic landfills. We have not received the details necessary to undertake a full analysis of these new or expanded functions. Our preliminary view is (a) cleanup of historic landfills could be partially addressed by retaining funding for the Contaminated Sites Remediation Fund (proposed for baseline savings) <sup>[33]</sup>

## Item Two: Further Information on Baseline Savings

### 15592 – Environment Baseline Savings - Waste Minimisation.

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15592 - Environment Baseline Savings - Waste Minimisation	(26.4)	Support Scaled	Support scaled. This initiative removes \$10.384m in funding for the Contaminated Sites Remediation Fund (CSRF). This initiative has been submitted on the basis that changes proposed in the waste targeted savings initiative (15595) would allow levy revenue to fund the cleanup of historic landfills (effectively substituting the CSRF). Levy revenue is also proposed to backfill a further \$15.200 million in savings relating to waste policy and data programmes. We do not support the agency's targeted savings proposal, which means supporting this initiative in full would create significant funding gaps if alternative funding sources for these programmes cannot be identified. Options to address the \$25.584m shortfall in the scaled option are required to deliver baseline reductions targets.

17. As the Treasury does not support the proposed expansion of the waste levy scope, we do not support the Contaminated Sites Remediation Fund component being returned as savings given the Government's focus on addressing the impacts of historic landfills and other contaminated sites. We do not currently support a reduction in the waste policy and data work programme as we do not have enough detail on the risks and trade-offs if proposed savings are not backfilled with levy revenue (as proposed in the targeted savings initiative).
18. You may wish to discuss the implications of delivering waste policy and data savings without relying on levy revenue with Minister Simmonds. If the impacts are considered minimal, this component could help address the \$25.584 million shortfall in baseline savings.
19. We recommend discussing an alternative option or combination of options to address the savings shortfall with the Vote Environment portfolio Ministers. The following options could be explored:

- a. **Utilise further savings within the Waste Minimisation initiative.** This could partially come from the waste emissions component of the savings, which relates to the CERF initiative, Reducing Emissions from Waste, funded at \$103.960 million over four years at Budget 2022. However, as Treasury does not hold data on the status of contracted funding for this initiative, we recommend MfE cost further savings opportunities and assess associated risks (eg, to climate change outcomes).
  - b. **Utilise further savings within the baseline savings package.** This could scale up savings from within other baseline savings initiatives. We note that MfE is best placed to identify the risks and trade-offs associated with further savings across these initiatives.
  - c. **Utilise savings outside of the baseline savings package.** For instance:
    - Scaling funding for the Freshwater Improvement Fund – we understand that the fund has been fully allocated, but do not have sight of the contractual obligations for remaining funding. This would require MfE to identify potential savings, risks and trade-offs.
    - Scaling funding for the Kaipara Moana Remediation Programme – we understand Ministerial preference was that option was not included in the submission. This option would present Treaty, reputational and potential legal risks that would need to be considered.
  - d. Any other options as identified by the agency or their Ministers.
20. We also understand that you are interested in opportunities for **further savings** – we recommend asking Ministers if the areas identified above could be investigated further.

15593 – Environment Baseline Savings – Climate Change Commission

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15593 - Environment Baseline Savings - Climate Change Commission	(15.6)	Support	<p>We support this initiative as it aligns with the Government's short-term savings priorities. We think the associated risks are sufficiently low and are outweighed by the fiscal benefit to the Crown.</p> <p>We note that, when compared to the Ministry for the Environment, the Commission is less able to manage this reduction given it has primarily non-discretionary, statutory functions and minimal cash reserves. There is a risk that these savings could affect the Commission's ability to effectively perform its core statutory functions under the Climate Change Response Act 2002.</p> <p>If the Commission is required to provide a future advisory function to support the implementation of a new agricultural emissions pricing scheme by 2030, the proposed savings could create a cost pressure.</p>

21. At the time the savings proposal was submitted, the Climate Change Commission had not yet been consulted on these additional savings. You may wish to seek a progress update on consultation with the Climate Change Commission about how the overall 7.5 percent baseline reduction from 2025/26 will be managed. You could ask whether these savings are expected to affect core legislative functions, and, if so, how any risks will be managed.

### 15591 – Environment Baseline Savings – Partnerships and Engagement

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15591 - Environment Baseline Savings – Partnerships and Engagement	(37.8)	Support	This initiative returns \$37.795 million in savings across the forecast period, including funding associated with delivery of communication, and engagement and partnership functions; as well as stopping funding for four multi-year non-departmental appropriations. We consider the risks identified in this proposal are low and adequate mitigations are proposed to manage these risks. Overall, we think the scale of risks are outweighed by the fiscal benefit to the Crown.

### 15573 – Departmental Savings from Reducing the Ministry’s Backoffice Enabling Functions and Services

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15573 – Departmental Savings from Reducing the Ministry’s Backoffice Enabling Functions and Services	(22.3)	Support	We support this initiative as it comes from non-essential back-office functions. It reduces the Ministry’s back office enabling functions through efficiencies and in proportion to reflect the Ministry’s smaller overall workforce and work programme. Any risks associated with this initiative are low and are outweighed by the fiscal benefit to the Crown.

### 15585 – Environment Baseline Savings – Climate Change

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15585 - Environment Baseline Savings - Climate Change	(35.5)	Support	<p>We support this proposal, which realises savings from areas that are low priorities for the Government and could increase efficiencies across climate change policy programmes. We consider the risks associated with this initiative are manageable and outweighed by the fiscal benefit to the Crown.</p> <p>The key risk arising from this savings initiative relates to reduced funding for the establishment of the Māori Climate Platform. <sup>[36]</sup></p> <p style="text-align: right;">however, as some funding is retained there are options such as rephrasing of funds and/or rescoping of the initiative to mitigate this risk.</p>

### 15586 – Environment Baseline Savings – Evidence and Data

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15586 – Environment Baseline Savings – Evidence and Data	(9.7)	Support	We support this savings proposal, as it comes from efficiencies across the Ministry’s discretionary evidence and data functions. We consider any risks associated with this initiative are low and/or manageable and are outweighed by the fiscal benefit to the Crown. Changes are implementable from 2024/25.

### 15588 – Environment Baseline Savings – Freshwater

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15588 - Environment Baseline Savings - Freshwater	(23.6)	Support	Support. This initiative returns \$23.6 million in savings across the forecast period, including funding associated with Jobs for Nature, scaling programmes under the Essential Freshwater Fund (such as Freshwater Farm Plans) and other time-limited initiatives, such as capability building support for tangata whenua. Some funding is committed for implementation, so will require transition plans to manage the withdrawal of funds for councils, community groups and Treaty partners. There may be some reputational risk involved with withdrawing already committed funding however, overall, we consider initiative impacts to be manageable, particularly as other funds for freshwater management remain (eg the Freshwater Improvement Fund).

## **Item Three: Resource Management Reform**

### 15582 – Resource Management Reform - Replacement

Title	Draft package	Treasury recommendation and comment	
	Total Operating (\$m)		
15582 – Resource Management Reform - Replacement	92.2	Scale	Support scaled. This initiative provides critical funding to deliver the Government’s commitments to reform the Resource Management system. MfE’s preferred option would provide funding for reform over the current term including fast-track consenting (legislation due to be passed in 2024), targeted amendments to the RMA in 2024, the introduction of replacement legislation in 2025 and a suite of national direction changes (set out in coalition agreements), which the Treasury considers to be highly ambitious. The scaled option will require some prioritisation of the work programme but should improve the deliverability of reforms. Ongoing funding to maintain and operate the RM system is provided in outyears to support system change

22. Cabinet has agreed to the Minister for RMA Reform’s work programme for resource management reforms over the next three years, subject to Budget 2024 decisions [CAB-24-MIN-0069].
23. This work programme is set out in three phases (with phase 1 already completed with the repeal of the NBA and SPA). Phase 2 includes passing standalone fast-track consenting legislation in 2024 (introduced to the House), two targeted Resource Management Act

(RMA) amendment bills (in 2024 and 2025) and a suite of integrated national direction changes across the parliamentary term. Phase 3 includes the development of replacement RMA legislation (likely two bills), intended to be passed in 2025.

24. We consider this work programme is highly ambitious and will require extensive engagement with iwi and post-settlement governance entities (PSGEs) to manage impacts on Treaty settlements. These timeframes will need to be managed carefully in order to pass the proposed legislation in the current term.
25. The scaled option recommended by Treasury will likely require prioritisation of the work programme to deliver the most critical reform elements, which we consider would improve overall deliverability. However, if the full scope of reforms is pursued, reprioritisation from other areas within MfE's baseline may be required under the scaled option.
26. We anticipate Minister Bishop will raise the trade-offs associated with the scaled option with you.

#### **Item Four: Report back on 2023/24 Resource Management funding**

27. As part of the Mini Budget, MfE were directed to report back to the Treasury by the end of January on the funding required in 2023/24 to implement the repeal of the existing legislation and wind down the associated programme, and to carry out work on fast-track consenting and other responsibilities under the 100-Day plan [CAB-23-MIN-0490 refers].
28. Based on figures provided in early February, MfE propose to return <sup>[33]</sup>, with <sup>[33]</sup> retained for forecast departmental costs for January – June 2023/24, and a <sup>[33]</sup> contingency for redundancy costs. The retained departmental funding is to support the delivery of Government priorities, including fast-track consenting, and to maintain staffing levels required for ongoing RM work.
29. There is an interaction between remaining 2023/24 funding and the 15582 Resource Management Reform initiative, as the latter relies on retaining a large proportion of existing staff (who are currently working on the Government's reform programme). MfE is awaiting Budget 2024 decisions to inform its organisational change process, which will require aligning FTE levels for 2024/25 with what is provided for RM reform through Budget 2024. This is because both the preferred and scaled options in the RM bid are lower than what was provided at Budget 2022 and what was removed via the Mini Budget. The change process will likely need to take place within this financial year.
30. We recommend that to minimise inefficiency and transition costs for MfE, any unspent funding in 2023/24 is returned through the October Baseline Update (OBU) upon confirmation of year end actuals. This will enable the continued delivery of Minister Bishop's RM work programme for the remainder of 2023/24 and ensure alignment with the outcome of the RM bid.
31. There is an option to return further 2023/24 funding (eg, in addition to the <sup>[33]</sup> or the remainder of unspent funding to date as savings through Budget 2024, with any remaining underspends returned at OBU. This option would create further uncertainty for MfE and would likely require a more urgent change process (eg, before the Budget 2024

initiative outcome is confirmed) to deliver 2023/24 savings. We do not think this would be an efficient use of resources and would not support this approach.

32. We recommend that you **discuss these options and agree an approach** with Minister Simmonds and Minister Bishop. The agreed approach should be formally communicated with Ministers' offices following the meeting. Pending this discussion, Treasury will work to reflect these savings in the next iteration of the Budget 2024 draft package where relevant.

**Item Five: CERF Initiatives rapid review**

33. As part of recent advice on the status of allocations previously made through the Climate Emergency Response Fund (CERF) [T2024/605 refers], we completed a rapid review of CERF initiatives. This exercise helped to identify where remaining funding was allocated through CERF and where further savings could be possible.

34. Our review highlighted five CERF initiatives that provided departmental capability funding for MfE (Table 6).

35. At least partial savings from four of the five CERF-funded MfE departmental capability initiatives have been put forward as part of MfE's baseline savings exercise. However, since MfE's savings submission aggregated elements of CERF and non-CERF initiatives, we do not have visibility of:

- What proportion is from CERF-funded initiatives, and
- Whether MfE intends to reprioritise some of this CERF funding to meet its overarching plan for baseline savings reductions.

36. You may wish to seek clarification from the Minister of Climate Change on how these initiatives have been considered through the Budget 2024 savings process and where there are opportunities to realise further savings.

37. <sup>[33]</sup>

38. You may wish to seek clarification that this initiative has been adequately considered as part of MfE's savings exercise.

*Table 6: Ministry for the Environment departmental capability CERF initiatives.*

Initiative	Original funding allocation – total opex (\$m)	Total funding remaining over 2023/2024 <sup>4</sup> (\$m)	Treasury comment
Climate Data Infrastructure	24.70	24.70	Partial savings are proposed in MfE's baseline savings proposals. Improved climate data could be aligned with government goals for adaptation and mitigation.
Delivering New Zealand's International Climate	8.92	9.47	MfE's initial baseline savings proposals suggests savings proposed from this initiative, but we do not have visibility

<sup>4</sup> Following savings already made at Budget 2023, Rapid Savings (July 2023) and Mini Budget

Change Target Through Offshore Mitigation			of what proportion. Developing a plan for meeting commitments around the NDC is a priority for the government.
Emissions Reduction Plan Performance Monitoring	16.57	16.53	MfE's initial baseline savings proposals suggest savings are proposed from this initiative.  This funded the Interagency Executive Board (IEB) secretariat, including its monitoring functions.  Given the IEB's current role in monitoring the emissions impacts of cross-government policy decisions, we recommend maintaining the IEB's functionality to support meeting legislative obligations.
Enabling a Scaled-up, High Quality Voluntary Carbon Market	3.63	3.33	MfE's initial baseline savings proposals indicate savings are proposed from this initiative, but we do not have visibility of what proportion.
Emissions Trading Scheme – Market Governance	-	5.05	This includes tagged contingency funding for several agencies. The Government has signalled that it wants to see improved governance of the ETS, so this may be aligned with your priorities.

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