The Treasury

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Cabinet Document Details

Title:	**Cabinet Paper: CAB-24-SUB-0182: Climate Implications of Policy Assessment for the Budget 2024 package**
Date:	**23 May 2024**
Creator:	Office of the Minister of Finance

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Climate Implications of Policy Assessment for the Budget 2024 package

Proposal

1. This paper provides Cabinet with the Climate Implications of Policy Assessment (CIPA) for the Budget 2024 package (Annex 1).

Relation to government priorities

2. This paper relates to the Government's Budget 2024 priorities and our overall climate change strategy.

Background

3. As part of the Budget 2024 development process, the Climate Change Interdepartmental Executive Board (CCIEB) Secretariat prepared a CIPA for a subset of relevant initiatives in the Budget package. The Treasury recommended the CCIEB Secretariat compile a CIPA, as it maintains the analysis of New Zealand's progress towards achieving emissions budgets and actions in emissions reductions plans. A near-final version of the CIPA was provided to me on 19 April alongside a draft of the Budget 2024 Cabinet paper.

4. I asked the Treasury to confirm whether a CIPA was required for the Budget 2024 Cabinet paper based on the near-final Budget package. At that time, they indicated that it was not required under Cabinet Office Circular CO (20) 3. Based on this advice, I decided to reference in the Budget Cabinet paper that I received an assessment of the climate impacts of the Budget package and was advised that a CIPA was not required in this instance [CAB-24-MIN-0148 refers].

5. The Treasury has since advised me that they misinterpreted the ten-year time-period over which to apply the CIPA requirements. To remedy this in accordance with CO (20) 3 recommended practice, the Minister of Climate Change and I have agreed to provide Cabinet with the final CIPA for the Budget 2024 package. The final CIPA is attached to this paper (Annex 1). The quantified figures are unchanged from the near-final version that I received previously, and findings and key themes remain the same.

CIPA Requirements

6. Under CO (20) 3, a CIPA is required for proposals going to Cabinet in which decreasing greenhouse gas emissions has been identified as a key policy objective, or:

   6.1 the direct impact on greenhouse gas emissions is likely to be equal to or above 0.5 million tonnes of CO2-e within the first ten years of the proposal period; or

   6.2 the direct impact on greenhouse gas emissions is likely to be equal to or above 3 million tonnes of CO2-e within the first 30 years of the proposal period for forestry related proposals.

7. The standard CIPA disclosure template presents emissions impacts over five-year intervals.

8. The Treasury and CCIEB Secretariat were focused on providing information to support Cabinet to understand the impacts of Budget decisions on emissions budgets and legislated targets. This led to a focus on the impacts of decisions over the first (EB1, 2022-2025) and second emissions budgets (EB2, 2026-2030), rather than the period over which the CIPA requirements applied. Due to this focus, the Treasury incorrectly interpreted the first ten years of Budget proposals to include the 2020-2025 and 2026-2030 periods, rather than from 2024-2034 (the 10 years after Budget 2024).

9. Over the 2020-2030 period, quantified emissions impacts were estimated to be around 0.436 Mt CO_2e, which is below the threshold for requiring a CIPA. However, when considering the 2024-2034 period, the quantified emissions impacts are estimated as closer to 0.870 MT CO_2e, which is above the threshold for requiring a CIPA.

10. The CIPA team at the Ministry for the Environment are typically consulted on CIPA requirements and development but were not in this case due to Budget sensitivity conventions.

11. CO (20) 3 provides options for when a Cabinet submission is missing or includes an inadequate CIPA. I consulted with the Minister of Climate Change on these options, and we agreed that I would provide Cabinet with the completed CIPA as soon as possible ahead of Budget Day. This approach corrects the information in the Budget Cabinet paper and helps to ensure that Cabinet is fully informed about the climate implications of its decisions. It also allows us to consider these impacts more fully in the context of the development of the second Emissions Reduction Plan (ERP2), which is occurring this year.

Summary of CIPA Findings

12. The CIPA considers the climate impacts of a subset of 40 proposals from the final Budget 2024 package. These are proposals that officials considered could have more material emissions impacts. Of these 40 initiatives, seven initiatives had quantified data that could be used for a CIPA, including figures for potential abatement lost or increases in emissions. Other initiatives were unable to quantify the impacts in time given for the CIPA, provided supporting qualitative statements, or signalled that consideration of emissions impacts would be provided at a later stage of policy or programme development.

13. While a lack of quantified emissions information provided by agencies means there is some uncertainty over the cumulative climate impacts for the Budget package, officials do not anticipate the subset of proposals considered are likely to pose a significant risk to achieving our first emissions budget (EB1, 2022-2025). However, some proposals will increase the existing uncertainty associated with meeting the second (EB2) and third (EB3) emissions budgets (2026-30 and 2031-35 respectively) as well as New Zealand’s first Nationally Determined Contribution (NDC1) under the Paris Agreement for the period 2021-2030.

14. Some of the savings decisions contained in this subset of initiatives also impact actions in the first (and current) Emissions Reduction Plan (ERP1). Actions in ERP1 were intended to contribute to achieving EB1 and set foundations to deliver further emissions reductions in EB2 and EB3. For some of these policies, some of the abatement potential has been achieved through the progress made to date. For others, savings were recovered from uncommitted or underspent funding that is not expected to impact the programme's outcomes.

15. Overall, and based on the data provided by agencies, officials do not expect that the removal of these actions from ERP1 will materially affect the achievement of EB1. In my view, going through the process to develop ERP2 this year will provide an opportunity for us to consider the emissions impacts of the Budget package with a focus on meeting our future climate targets.

16. In parallel to Budget 2024 decision making, the Ministry for the Environment is updating its understanding of how New Zealand is progressing towards emissions budgets, including accounting for methodological changes to the greenhouse gas inventory, policy changes and other updates. Timeframes for Budget 2024 have meant that it was necessary to consider the climate impacts for these proposals in advance of these broader updates.

Financial Implications

16. There are no financial implications associated with this paper.

Impact Analysis

Regulatory Impact Statement

17. Requirements for a Regulatory Impact Statement do not apply to this paper.

Consultation

18. Due to the timeframes required to provide this information, I have not widely consulted Ministers or agencies on this paper. However, I have engaged the Minister of Climate Change and the CCIEB Secretariat on the substance of this paper.

Communications

19. I will coordinate communications of the climate implications of the Budget package with the Minister of Climate Change.

Proactive Release

20. I intend to release this paper as part of the proactive release of Budget 2024 documents, which normally occurs in the weeks after Budget Day.

Recommendations

I recommend that Cabinet:

1. **note** that on 29 April Cabinet agreed the Budget 2024 package [CAB-24-MIN-0148];

2. **note** the attached Climate Implications of Policy Assessment (CIPA) completed to support the Budget 2024 package;

3. **note** that the development of the second Emissions Reduction Plan, which is to be published later this year, provides an opportunity to consider actions that might be needed to support our achievement of future climate targets.

Authorised for lodgement

Hon Nicola Willis

Minister for Finance

Climate Implications of Policy Assessment: Disclosure Sheet

This disclosure sheet provides the responsible department's best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand's emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	**Budget 2024 Package**
Agency responsible for the Cabinet paper:	The Treasury
Date finalised:	10 May 2024
Short description of the policy proposal:	Climate impacts assessment of a subset of Budget 2024 initiatives encompassing new spending, cost pressures and savings initiatives.

This Climate Implications of Policy Assessment (CIPA) has been developed in collaboration between the Climate Change Interdepartmental Executive Board (CCIEB) Secretariat and the Treasury. It considers the climate impacts across a subset of Budget initiatives from multiple agencies. The subset consists of 40 initiatives where officials identified the initiative could have more material emissions impacts.

Section 2: Greenhouse gas emission impacts

Additional emissions relating to new spending initiatives [4 of 16 new spend initiatives' estimated emissions impact]

Sector & source	Changes in greenhouse gas emissions in kilotonnes of carbon dioxide equivalent (Kt CO_2-e)				
	2020–25	**2026–30**	**2031–35**	**2036–50**	**Cumulative impact**
Electricity[1]	0.966	9.66	9.66	28.98	49.266
Transport	0	0	0	0	0
Industry[2]	145.68	9.61	0	0	155.29
Waste	0	0	0	0	0
Agriculture	0	0	0	0	0
Land use, land use change and forestry	0	0	0	0	0
Total	**146.646**	**19.27**	**9.66**	**28.98**	**204.556**

Additional emissions relating to abatement potential lost from savings initiatives [3 of 24 savings initiatives' estimated emissions impact]

Sector & source	Changes in greenhouse gas emissions in kilotonnes of carbon dioxide equivalent (Kt CO_2-e)				
	2020–25	**2026–30**	**2031–35**	**2036–50**	**Cumulative impact**
Electricity[3]	0	125.6	157	471	753.6
Operational	0	0	0	0	0
Transport and Industry[4]	1.88	35.68	46.95	65.72	150.23
Waste[5]	8	99	221	1,349	1,677
Agriculture	0	0	0	0	0
Land use, land use change and forestry	0	0	0	0	0
Total	**9.88**	**260.28**	**424.95**	**1,885.72**	**2,580.83**

[1] Emissions associated with increased staffing numbers in the Police portfolio.
[2] Embodied emissions associated with construction activity in Education portfolio (includes new construction and maintenance/upgrading of existing buildings).
[3] This abatement is related to funding returned from Warmer Kiwi Homes programme (efficient hot water and lighting).
[4] Return contingency funding for early adoption of green hydrogen in transport and industry.
[5] Abatement potential lost from savings for the Climate Emergency Response Fund (CERF) returned funding, relating to the *Environment Baseline Savings – Waste Minimisation*. This largely relates to biogenic methane emissions.

Section 3: Additional information

Additional information

Note the following constraints and relevant context associated with development of this CIPA

This assessment has been developed with a mix of quantitative and qualitative data provided by agencies. It applies to a subset of 40 Budget initiatives where officials considered the initiatives could have more material climate impacts. Of these 40 initiatives, seven initiatives had quantified data that could be used for a CIPA, including potential abatement lost or increase in emissions figures. Other initiatives were unable to quantify the impacts in time given for the CIPA, provided supporting qualitative statements or signalled that emissions impacts will be provided at a later stage of policy or programme development (e.g. when seeking future specific Cabinet decisions/approval).

Overall, the lack of quantified emissions impacts provided for initiatives presents a serious impediment to providing a robust assessment of the cumulative climate impacts associated with the subset of initiatives and it is therefore hard to be conclusive about the climate impact of this Budget package. This cumulative impact could be material, particularly in respect of savings initiatives, where those initiatives were linked to or supported actions in the first Emissions Reduction Plan (ERP1) in anticipation of them delivering emissions abatement (directly or indirectly) across current and future emissions budgets.

Other constraints to completing this CIPA included:

- Different agencies using different methods and assumptions to determine the potential emissions impacts of initiatives.
- Data limitations necessitating limited qualitative assumptions on the potential impact of initiatives, including anticipating which emissions budget period the potential impact may land within, and if there is a direct or indirect impact on emissions.

The annual greenhouse gas inventory report was delivered on 18 April 2024. Alongside this, the Ministry for Environment (MfE) in collaboration with climate change agencies has updated interim emissions projections, on how we are tracking towards our emissions budgets. The latest interim projections (using an alternative model and prior to any modelling for potential ERP2 policies) indicate meeting emissions budgets has become more challenging, compared to the December 2023 projections, but is still within the uncertainty bands of the modelling.

Summary of potential emissions impacts

Based on the information provided by agencies, the subset initiatives in scope of this CIPA are not expected to materially impact emissions in the first emissions budget period (EB1, 2022-25). However, there are some initiatives that will increase the existing considerable uncertainty associated with meeting the second and third emissions budgets (EB2, 2026-30 and EB3, 2031-35 respectively). These initiatives will also have negative impacts for New Zealand's ability to meet its first Nationally Determined Contribution (NDC1, 2021-30) under the Paris Agreement.

Some of the proposed savings initiatives were intended to enable abatement in future emissions budget periods. If the abatement potential of a savings initiative is not replaced through new or (enhanced) existing action(s) then it is anticipated those initiatives will have a negative impact on emissions in later emissions budgets periods (and corresponding negative impacts on meeting the NDC1); increasing the uncertainty and risk associated with meeting future emissions budgets and NDC1.

Additional information

Decisions on policies and actions to take through the second Emissions Reduction Plan (ERP2, being consulted on in June and published later this year) will be critical to addressing any abatement impacts resulting from these Budget initiatives, to improve the certainty for meeting EB2 and EB3, and for meeting NDC1.

Impact of proposed new spending on emissions

There are 16 new spending initiatives in the scope of this CIPA, four of which included information on emissions quantification that could be used in this assessment. The titles of these 16 initiatives are listed below. While the initiatives span multiple votes, most of this new spending relates to new construction. There is also new spending in the transport sector, including new vehicle purchases and investment in roads. This new spending will have a climate impact as it will add to emissions and therefore have a negative impact on abatement potential.

Given the lead time for many of these initiatives, this increase will predominantly be generated from EB2 onwards. More detailed analysis is provided below.

Vote	Initiative Title
Business, Science and Innovation	Regional Development – Baseline Operating Funding to Support Economic Development Opportunities in Regional New Zealand
Business, Science and Innovation	Regional Development – Regional Infrastructure Fund Establishment
Corrections (two initiatives)	Prisoner Population – Responding to Increasing Prisoner Numbers (one providing operating and capital funding, and one establishing a tagged contingency)
Defence Force	Military Operational Vehicles
Defence Force	Homes for Families (Part Two)
Defence Force	Upgrading the Regional Supply Facility and Logistics Model at Linton Military Camp
Education	School Property Portfolio Growth Cost Pressure
Education	Marlborough Boys' and Girls' Colleges and Bohally Intermediate Redevelopments
Education	Christchurch Schools' Rebuild Cost Pressures
Housing and Urban Development	Kainga Ora Crown-Funded Programmes and Statutory Obligations – Continuation of Funding
Housing and Urban Development	Social Housing Supply – Additional 1,500 Social Housing Places
Police	Investing in Core Policing
Transport	North Island Weather Events- Road Response and Recovery
Transport	Rail Network Investment Programme (Tagged Contingency)
Transport	Government Policy Statement on Land Transport 2024 – Crown Grant and Crown Loan

Additional information

Construction spending

New spending in construction encompasses a broad range of activity including new builds, retrofit of existing buildings, and asset management.

New construction contributes to the amount of embodied carbon in buildings and will have increased emissions associated with the construction period and activity. However, if built with climate change considerations in mind, there are opportunities to both reduce the embodied carbon in materials and reduce the operational and lifetime emissions of the building over time. Operational and lifetime emissions have not been quantified by agencies.

Where agencies have provided information about the anticipated level of embodied carbon, this is captured in the tables in section two above under the ‘industry’ sector. Based on the construction timelines provided, operational carbon from these initiatives will be generated from EB2 onwards.

Transport spending

New spending encompasses a broad range of activity including fleet upgrades and road initiatives.

Military Operational Vehicles in the Defence portfolio could lead to an increase in operational emissions. However, this impact has not been quantified by the New Zealand Defence Force (NZDF).

The impact of *Investing in Core Policing* will lead to an increase in the size of the police force. This is assumed to be accompanied by a corresponding increase to fleet size and, as a result, will lead to an increase in transport and operational emissions. This impact has been forecast by the agency on a per FTE basis, transport emissions have not been distinguished, this is therefore contained in the electricity line of section two above.

The *North Island Weather Events - Road Response and Recovery* initiative [33]

As noted by Waka Kotahi [33]

Spending in relation to the *Government Policy Statement on Land Transport 2024 (GPS 2024) – Crown Grant and Crown Loan*, is allocated “to support implementation of priorities set out in the GPS 2024, including the Roads of National Significance programme.” The CCIEB Secretariat notes that any proposed expansion of the road network could lead to an increase in transport-related emissions, both from construction of new roads and associated increase in internal combustion engine vehicle travel. However, any potential increase in emissions has not been quantified for this initiative.

This was similarly the case for the *Rail Network Investment Programme (Tagged Contingency)* for the level of funding allocated through the Budget process. The CCIEB Secretariat notes that as this initiative supports “efficient and effective network services for all rail users and […] future growth on rail improvements” it can be anticipated that this initiative will deliver some abatement if the improvements result in displacing other transport related emissions (passenger and freight).

Additional information

Initiatives relating to Regional Infrastructure Fund Establishment

The establishment of the *Regional Infrastructure Fund* (RIF) does not in itself have an emissions impact. However, the individual projects that receive funding through it potentially will. [33]

Housing and Urban Development spending

There are three initiatives relating to housing, *Kainga Ora Crown-Funded Programmes and Statutory Obligations – Continuation of Funding, Social Housing Supply – Additional 1,500 Social Housing Places,* and *Kainga Ora led Large-Scale Projects – Rescoping Investments.* [33]

Impact of savings initiatives

There are 24 savings initiatives in the scope of this CIPA, the titles of these are listed below. Three of these included information on emissions quantification that could be used in this assessment. Savings or removal of funding from some of these initiatives will have a climate impact in cases where they were anticipated to deliver emissions reductions. Other initiatives were anticipated to indirectly contribute to emissions reduction in that they were intended to start and enable reductions in future budget periods.

In some cases, the abatement impact of policies was modelled at the time of development. However, not all policies were modelled and agencies have stated that the impact of savings is challenging to quantify. For some initiatives, only partial savings have been sought and agencies have indicated the return of surplus funding will not impact the intended outcome of the initiative. In addition, some initiatives have already delivered part of the intended emissions reduction for EB1, abatement and will not be lost with partial savings. More detailed analysis is provided below.

Vote(s)	Initiative Title
Agriculture, Biosecurity, Fisheries and Food Safety	Accelerating Development of Agricultural Greenhouse Gas Mitigations – Return of Funding
Agriculture, Biosecurity, Fisheries and Food Safety	Mātauranga Māori-Based Approaches to Agricultural Emissions Reduction - Reduction in Programme
Agriculture, Biosecurity, Fisheries and Food Safety	Agricultural Emissions Pricing – Return of Funding
Business, Science and Innovation	Return of Funding for Accelerator Wood Processing Growth Fund
Business, Science and Innovation	Return of Funding for Energy Portfolio Programmes
Business, Science and Innovation	Return of Funding for the Energy Efficiency and Conservation Authority

Additional information	
Business, Science and Innovation	CERF Savings - Emissions Trading Scheme - Market Governance
Business, Science and Innovation	Return of Tagged Contingency - Equitable Transitions Package: Regional Hydrogen Industry Transition
Environment	Environment Baseline Savings - Climate Change
Environment	Environment Baseline Savings – Waste Minimisation
Environment	Environment Targeted Savings – Waste Disposal Levy
Environment	New Zealand Emissions Trading Scheme market governance
Forestry	Catalyst Wood Processing Growth Fund – Return of Funding
Forestry	Woody Biomass Planting Programme – Return of Funding
Forestry	Establishing Native Forests at Scale to Develop Long-term Carbon Sinks and improve Biodiversity – Scaled Research.
Forestry	Establishing Native Forests at Scale – Closure of Tagged Contingency
Housing and Urban Development	Kainga Ora led Large-Scale Projects – Rescoping Investments
Lands	3D Coastal Mapping reduced scale
Māori Development	Return of Funding - Hāpori Māori - Increasing Community Resilience through Data Capability and Access
Transport	Rail Resilience Improvements Reprioritisation of Funding
Transport	Community Connect Programme Concessions - Return of Surplus Funding
Transport	Community Connect Programme Administration Costs - Return of Funding
Transport	Public Transport Workforce Sustainability and Skill Improvement Programme - Return of Funding
Transport	Transport Choices Programme - Return of Funding

Agriculture

The savings initiatives relating to agricultural emissions pricing reflect the change in policy direction and include a rephasing of funding in line with revised policy direction. Policy decisions around agricultural emissions pricing could impact the expected level of agricultural emissions reduction previously considered in modelling for the achievement of future emissions budgets. However, it is not anticipated that the associated savings initiatives in this Budget package will impact the ability to meet EB1, as agricultural emissions pricing policy was only expected to result in a small emission reduction over that period. Emissions projections to date have assumed a pricing mechanism would be in place by 2025, so any delay to implementing agricultural emissions pricing will have an impact on the amount of emissions reduction which can be realised through EB2 and EB3. The CCIEB Secretariat understands that the emissions impacts of policy changes to agricultural emissions pricing will be considered separately, at the time of specific Cabinet decisions on these policies.

Additional information

Carbon storage

There are two initiatives relating to carbon storage and long-term carbon sinks in the form of forestry, and three relating to wood processing and planting. The Ministry of Primary Industries has indicated that partial savings from these initiatives are not anticipated to impact the overall outcomes of these work programmes.

Energy

There are three initiatives relating to energy. The abatement impact of the *Return of Tagged Contingency – Equitable Transitions Package: Regional Hydrogen Industry Transition* initiative and *Return of Funding for the Energy Efficiency and Conservation Authority* (relating to the Warmer Kiwi Homes programme) have been provided and are contained in the Transport & Industry and Electricity rows respectively of the relevant table in section two of this CIPA. The abatement impact of the *Return of funding for Energy Portfolio Programmes* has not been quantified.

It should be noted that abatement figures relating to the *Return of Tagged Contingency – Equitable Transitions Package: Regional Hydrogen Industry Transition* initiative were provided through the Budget 2023 process (at the time of funding allocation) and have not been updated. However, the accuracy of these figures has been confirmed by the Ministry of Business Innovation and Employment. A range of potential abatement was provided, the median figures have been used for this CIPA. The initiative intended to deliver a "clean hydrogen consumption rebate aimed at industrial consumers […] intended to unlock private sector investment."[6]

Transport

Savings in the transport sector are anticipated to have a negative impact on abatement potential (i.e. emission reductions will be lost), though the magnitude is hard to quantify given complexities around emissions modelling for the initiatives in question. Transport-related saving initiatives are spread across the Transport, Business, Science and Innovation, and Social Development votes.

Public Transport

There are four public transport initiatives, which were intended to incentivise increased use of public transport. These are: *Community Connect Programme Concessions - Return of Surplus Funding, Community Connect Programme Administration Costs - Return of Funding, Public Transport Workforce Sustainability and Skill Improvement Programme - Return of Funding,* and *Transport Choices Programme - Return of Funding.* The Ministry of Transport has indicated that the emissions abatement impact of these initiatives is challenging to model as they are enabling initiatives. While it is hard to quantify the impact, initiatives of this nature are expected to incentivise behaviour change to use of lower emissions transport options.

Heavy Transport and Freight

The *Return of Funding for the Energy Efficiency and Conservation Authority* also includes the Low Emission Transport and Freight Decarbonisation Grants Programme, relating to freight and heavy vehicles, which is a known harder-to-abate portion of transport sector emissions. This initiative was intended to enable abatement in future emissions budget periods and grant funding would likely have increased onshore options for the transport sector to decarbonise freight.

[6] Information taken from the Budget 2023 initiative submission.

Additional information
However, the Low Emission Transport and Freight Decarbonisation Grants Programme had not commenced and the agency noted there is no loss in outcome versus the current support for freight decarbonisation. *Waste* MfE has provided an anticipated impact of savings from the component of the *Environment Baseline Savings – Waste Minimisation* that was funded from the Climate Emergency Response Fund. This is contained in the waste line of the relevant table in section two of this CIPA. Policy decisions on the waste levy were taken through a separate Cabinet decision, an assessment of the climate impacts of policy choices was considered at the time of that decision. **Adaptation and resilience benefits** The CCIEB Secretariat has not been asked to provide advice on the adaptation or resilience benefits and/or disadvantages of the draft Budget package, as adaptation is out of scope of a CIPA. However, it notes that some of the proposed investments may contribute or have potential to contribute to (if designed accordingly) embedding climate resilience or avoiding maladaptation. For example, the *Regional Development – Regional Infrastructure Fund establishment* initiative. The Defence Force has also noted that investment in *Military Operational Vehic*les can improve the resilience of the response to natural hazards as they will "form a key part of any NZDF-led response to a domestic natural disaster, including climate-driven disasters". Other initiatives such as the return of funding for *3D Coastal Mapping*, and *Hāpori Māori - Increasing Community Resilience through Data Capability and Access* have more direct links to adaptation preparedness, as adding to data sets or making data more accessible were intended to enable more risk-informed decisions.

Section 4: Quality assurance

Quality assurance
The Treasury have provided quality assurance of this CIPA.