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Cabinet Document Details

Title: **Cabinet Paper: CBC-24-SUB-0021: Restoring Conventional Funding Approaches for Resilience and Climate Investment**

Date: **22 April 2024**

Creator: Office of the Minister of Finance

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Restoring Conventional Funding Approaches for Resilience and Climate Investment

Proposal

- 1 This paper seeks Cabinet agreement to:
 - a. Restore conventional Budget processes for the consideration of funding requests for climate change and resilience related investment.
 - b. Continue funding projects toward national resilience, rebuilding infrastructure for regions affected by the North Island Weather Events (NIWE) and investments to support emissions reduction and climate related adaptation, but on a case-by-case basis so trade-offs are properly analysed.
 - c. Disestablish the National Resilience Plan (NRP) mechanism whilst maintaining funding for significant initiatives already agreed by Cabinet, and maintaining an uplift in the Multi-Year Capital Allowance (MYCA) to allow for future investments.
 - d. Discontinue the Climate Emergency Response Fund (CERF) in line with our commitment that proceeds from the Emissions Trading Scheme (ETS) will be returned to the centre and used in part to support a 'climate dividend' of personal income tax adjustment not planned by the previous Government.

Executive Summary

- 2 Funds like the NRP and CERF operate outside the Budget process, and I consider requests for funding should be considered through normal Budget processes. The Budget process allows us to make system-wide trade-offs, ensuring that our funding decisions support high-value and priority proposals.

National Resilience Plan

- 3 Through Budget 2023, the previous government established an NRP and set aside \$6 billion from the MYCA. The stated reason for this was to provide flexibility to allocate funding for projects where it was needed following the North Island Weather Events [CAB-23-MIN-0139 refers].
- 4 I consider that, one year on from these events, we are now in a position to restore conventional Budget processes for the consideration of funding requests for climate change and resilience-related investment.
- 5 Stopping this approach will mean that funds will be returned to the centre and remain available for projects prioritised by Cabinet. This approach will still allow resilience-related projects to be funded in this and subsequent Budgets.

- 6 Using traditional Budget processes is preferable, since by assessing proposals through standard Cabinet decision-making processes we will be better supported to make system-wide trade-offs, which ensures that our funding decisions support high-value and priority proposals.

Climate Emergency Response Fund

- 7 The previous Government established the CERF in 2021 [CAB-21-MIN-0349 refers]. The rationale for its establishment was to create a mechanism to recycle proceeds generated from the Emissions Trading Scheme (ETS) for 'climate purposes.' This was interpreted very broadly and I believe that many of the spending decisions made under this label did not represent good value-for-money from an emissions reduction or taxpayer value perspective. At Mini Budget 2023, we agreed to reallocate funding remaining in the CERF, in line with our fiscal plan [CAB-23-MIN-0490 refers].
- 8 Discontinuing the CERF does not prevent us from making any spending decisions that could be required to support our climate goals. There remain a range of tools and actions available to the Government to manage the costs of climate change, including considering core policy settings, maintaining fiscal headroom, using the operating and capital allowances, and reprioritisation.

Background

National Resilience Plan

- 9 Through Budget 2023 the previous Government established the NRP and set aside \$6 billion from the MYCA to provide funding for medium- and long-term infrastructure resilience projects [CAB-23-MIN-0139 refers]. Of the \$6.0 billion, \$3.0 billion was set aside to fund capital investments and \$3.0 billion for operating investment.
- 10 NRP funding was to be delivered in phases, prioritising projects that restored connectivity in the wake of the NIWE; addressed resiliency challenges; and made progress on closing the infrastructure deficit. All of these activities are already able to be funded as part of other normal allocations of Budget funding.
- 11 It is my intention that the final Budget 2024 package will return additional funding for significant NIWE-related investments. Those that are ready for funding have been confirmed with the Ministry of Transport. It is my expectation that future Budgets will allocate funding to other projects.

Climate Emergency Response Fund

- 12 The previous government established the CERF in 2021 [CAB-21-MIN-0349 refers]. ETS cash proceeds were used as the starting point for the balance of the CERF, with allocations made at each Budget round.
- 13 The National Party's fiscal plan indicated an intention to use ETS proceeds to support a 'climate dividend' of personal income tax adjustment not planned by the previous Government. In line with this, at Mini Budget 2023, Cabinet agreed to reallocate available funding remaining in the CERF to Budget 2024 allowances [CAB-23-MIN-0490 refers]. This decision left the balance of the

CERF at \$0. The CERF was not formally disestablished at the time of Mini Budget, pending further advice on legal risk relating to the Government's obligations under the Climate Change Response Act.

Discontinuing the National Resilience Plan

I seek agreement to discontinue the NRP and return the unallocated balance to the Multi-year Capital Allowance and Budget 2024 operating allowance

- 14 I seek agreement to discontinue the NRP and return the unallocated funds of \$3.239 billion to the MYCA and Budget 2024 operating allowance.

I seek agreement to uphold Cabinet decisions on \$2.761 billion of allocated funding

- 15 To date, \$2.761 billion has been allocated through Phases One, Two and Three of the NRP, with a focus on investment in road, rail, transportation, and Future of Severely Affected Locations (FOSAL) projects. Of this funding, some has been contracted, with most projects still in early design-stages, although several projects are due for completion later this year.
- 16 In Phase 2 of the NRP, the Office for Māori Crown Relations – Te Arawhiti supported the Far North District Council's (FNDC) proposal to fund \$5.4 million to upgrade Kaitāia Airport. Treasury officials assessed that while the proposal fell within the scope of the NRP as a local government initiative, the investment didn't sufficiently meet the resilience criteria to recommend funding.
- 17 The previous Government's Cabinet delegated authority to Joint Ministers (Finance, Cyclone Recovery, Māori Crown Relations: Te Arawhiti, and Transport) who reached a different view and approved \$5.4 million to upgrade Kaitāia Airport, subject to an approved business case. Treasury has assessed the business case and continues to not support the funding proposal. The funding remains appropriated to the Office for Māori Crown Relations – Te Arawhiti but unallocated to FNDC.
- 18 I agree with the Treasury's assessment, however, as the funding decision has been publicly announced and expectations have been created in the Kaitāia community, I consider the high reputational risks outweigh not providing the moderate funding. Therefore, I support the release of the funding to FNDC in this instance, however, funding situations such as this reinforce my strong preference to close such funds and to use normal Budget processes.
- 19 Reporting on Phase One and Two projects indicates that several projects are likely to experience cost escalations (particularly on roading projects). To the extent that this eventuates, requests to cover any cost escalations should be sought through standard Cabinet processes, including the Budget.

Discontinuing the Climate Emergency Response Fund

I seek agreement to discontinue the CERF

- 20 The Government is committed to delivering climate change targets including its Nationally Determined Contribution (NDC) under the Paris Agreement in

2030, net zero long-lived gases by 2050, methane reduction, and emissions budgets.

- 21 We intend to pursue a different strategy for achieving these goals to the previous government. Our strategy will involve the following:
- a. Restoring market confidence in the ETS as the most critical tool for reducing domestic emissions.
 - b. Developing a viable action plan for how New Zealand will meet its obligations under the Paris Agreement relating to our NDC.
 - c. Judicious use of other complementary measures, such as regulatory measures and investment, where we are satisfied that they genuinely complement, rather than substitute for or hinder the role of the ETS.
- 22 This will mean less reliance on direct public investment to meet our climate objectives. In this context, I propose to discontinue the CERF, as I do not consider it to be well aligned with our climate or fiscal strategies.

ETS cash proceeds will be used to support the fiscal plan

- 23 When the CERF was set up, Cabinet agreed to use available proceeds from the ETS as its funding source. As outlined above, we returned remaining funding in the CERF at Mini Budget 2023 and agreed that going forward ETS cash proceeds should be used to support our fiscal plan.
- 24 We are also considering a number of potential savings from initiatives originally funded from the CERF through Budget 2024. When the CERF was set up, Cabinet agreed that underspends and savings would be returned to the fund. Going forward, these should either be returned to the centre, or reprioritised through agreement by joint Ministers under CO (18) 2 to progress Government priorities.¹
- 25 I have also directed Treasury to carry out one final round of monitoring and reporting on CERF initiatives. Treasury will publish this and then close off its monitoring and reporting against the CERF.

We will use other fiscal levers to manage the costs of climate change

- 26 Climate change is likely to involve significant fiscal costs, such as from responding to severe weather events and investing in more resilient assets.
- 27 Discontinuing the CERF does not prevent us from making any spending decisions that could be required to support our climate goals. There remains a range of tools and actions available to the Government to manage the costs of climate change, including considering core policy settings, maintaining fiscal headroom, use of the operating and capital allowances, and reprioritisation.

Obligations under the Climate Change Response Act [contains legally privileged material]

¹ Cabinet circular CO (18) 2 sets out the guidelines and requirements for Ministers and departments seeking approval of proposals with financial implications, changes to appropriations, and the authority to incur expenses. It establishes the circumstances in which joint Ministers can agree changes to appropriations without Cabinet approval.

28 The establishment of the CERF was an action in the first (and current) Emissions Reduction Plan (ERP1), which outlines how legislated emissions budgets will be met. The CERF has previously funded actions to support the plan.

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b. [36]

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Cost-of-living Implications

35 This paper does not have any direct cost-of-living implications.

Financial Implications

36 Discontinuing the NRP and returning this \$3.239 billion to the MYCA and Budget 2024 operating allowances will have the following fiscal impacts:

OBEGAL impact	Net debt impact	One-off MYCA impact	Operating Allowance
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No impact	No impact.	Capital allowance increases by \$1.760 billion.	Operating allowance increases by \$1.480 billion over the forecast period.
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- 37 While the impact on OBEGAL and net debt is expected to be neutral over time, there could still be impacts in specific years depending on the phasing of the increases in the MYCA and operating allowances. In addition, as the NRP was established as a time-limited fund, adding the unallocated operating funding in the NRP to the Budget 2024 operating allowance will have adverse impacts on OBEGAL beyond the forecast horizon.
- 38 There are no financial implications from disestablishing the CERF mechanism, as decisions to reallocate the remaining balance of the CERF were taken at Mini Budget 2023.

Legislative Implications

- 39 This paper does not have any legislative implications.

Impact Analysis

Regulatory Impact Statement

- 40 Regulatory impact analysis requirements do not apply to this paper.

Climate Implications of Policy Assessment

- 41 A Climate Implications of Policy Assessment is not required for this decision, as it will not have any direct impact on emissions. The CERF is a fiscal management tool, and a range of other tools remain to support management of fiscal costs of climate change.

Population Implications

- 42 The NIWE had significant implications for communities throughout the affected regions. NRP investments were prioritised to restore connectivity and ensure that communities, family, and whānau remain connected. Many of the areas affected by the recent severe weather have significant Māori populations, particularly in Auckland, Tairāwhiti and Hawke's Bay.
- 43 Although I am seeking to discontinue the NRP, funding required to respond to significant events that impact on particular populations, such as rural and Māori communities, will remain available through standard Budget and out-of-cycle funding processes. I consider this approach will best balance the flexibility required for urgent response funding and Cabinet oversight of longer-term recovery funding.

Human Rights

- 44 No human rights implications have been identified from the proposals in this paper.

Consultation

- 45 On the basis that content of this paper is Budget Sensitive, Treasury undertook targeted consultation during its development, including with:
- a. The Department of Prime Minister and Cabinet's Cyclone Recovery Unit.
 - b. The Office for Māori Crown Relations – Te Arawhiti.
- 46 The content of this paper relating to the CERF has not been consulted on with other agencies. However, I have specifically consulted with the Minister of Climate Change on its content, given his obligations under the Climate Change Response Act. These are outlined above in paragraph 30.

Communications

- 47 I recommend that these decisions are treated as Budget Sensitive and are considered as part of our communications strategy for Budget 2024. This includes a potential pre-Budget day announcement of our commitments to NIWE related recovery projects.
- 48 To the extent that individual proponents are awaiting feedback on 'live' investment decisions, I will communicate the Government's intent to discontinue these funds and any relevant implications for funding proposals.

Proactive Release

- 49 I expect to proactively release the components of this Cabinet paper that do not relate to specific projects – this is to ensure we preserve our ability to act commercially and for us to have the ability to consider project-level decisions without undue disruption.
- 50 In line with the above, I expect to align the timing for the proactive release of this paper with my communications strategy for Budget 2024, including the proactive release of Budget documents which usually occurs in the weeks after Budget Day.

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that through Budget 2023, the previous Government established the National Resilience Plan (NRP) and set aside \$6 billion from the Multi-Year Capital Allowance (MYCA) to provide funding for medium- and long-term infrastructure resilience [CAB-23-MIN-0139]
2. **note** that of the \$6 billion, initially \$3 billion was set aside to fund capital investments and \$3 billion for operating investments for the purposes of the Treasury's fiscal forecasts
3. **note** that \$2.215 billion of operating funding and \$0.540 billion of capital funding has been allocated from the NRP

4. **agree** to maintain the allocation decisions for \$2.761 billion of the funding that has already been committed
5. **note** that Cabinet previously delegated authority to the then Ministers of Finance, Cyclone Recovery, Māori Crown Relations: Te Arawhiti and Transport to approve the upgrades required at Kaitiāia Airport to be funded via Phase 2 of the NRP, including establishing any new appropriations or amending existing appropriations as necessary [CAB-23-MIN-0435 refers]
6. **note** that the Ministers outlined in recommendation 5 above agreed to appropriate \$5.4 million to Te Arawhiti for the upgrade of Kaitiāia Airport, and that this funding would be provided to Far North District Council once a business case outlining how the project met NRP criteria had been developed
7. **agree** that, in light of the expectations of the community, Te Arawhiti should allocate the \$5.4 million which has already been appropriated for the upgrade of Kaitiāia Airport to the Far North District Council

Closure of National Resilience Plan

8. **note** that the available balance in the NRP totals \$3.239 billion, comprising \$1.760 billion capital and \$1.480 billion operating
9. **agree** to discontinue the NRP as a programme available for providing funding for medium- and long-term infrastructure resilience projects
10. **agree** that the remaining capital funding in the NRP of \$1.760 billion is added to the MYCA
11. **agree** that the remaining operating funding in the NRP of \$1.480 billion is added to the Budget 2024 operating allowance
12. **note** that the decisions sought in recommendations 10 and 11 are expected to be broadly neutral on the operating balance and net debt over the forecast period, however there may still be impacts in specific fiscal years and beyond the forecast period
13. **note** that the funding returned to the MYCA and Budget 2024 operating allowance will support funding decisions for Budget 2024

Closure of the Climate Emergency Response Fund

14. **note** that the previous Government established the Climate Emergency Response Fund (CERF) in 2021 as a mechanism to recycle proceeds generated from the Emissions Trading Scheme for 'climate purposes' [CAB-21-MIN-0349 refers]
15. **agree** to disestablish the CERF
16. **agree** that that CERF underspends identified through Budget 2024, and any future CERF savings or underspends, will not be returned to the CERF, and
17. **agree** that the CERF underspends and savings referred to in recommendation 16 be returned to the centre, unless the relevant Appropriation Minister and

the Minister of Finance jointly agree they can be reprioritised to progress Government priorities in accordance with CO (18) 2.

Authorised for lodgement

Hon Nicola Willis

Minister of Finance